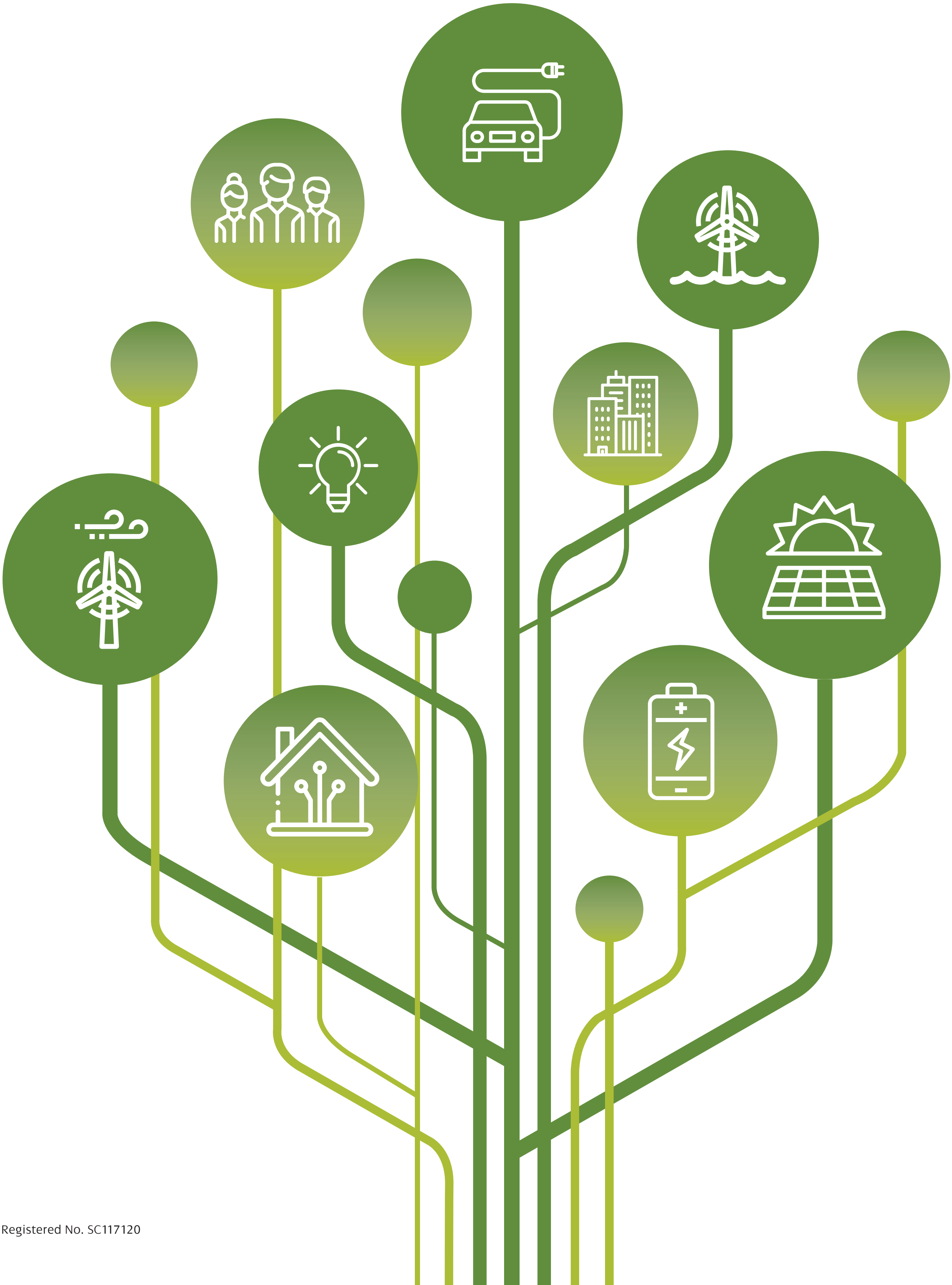
SCOTTISHPOWER

SCOTTISH POWER UK PLC

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2022



Registered No. SC117120

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Group Strategic Report for the year ended 31 December 2022

The directors present their Strategic Report on the Scottish Power UK plc Group ("the Group") for the year ended 31 December 2022.

SCOTTISHPOWER TODAY

ScottishPower: creating a better future, quicker, by delivering a low-carbon future for the UK

WHO WE ARE

Scottish Power UK plc ("the Company"), registered company number SC117120, acts as the holding company of the Scottish Power UK plc Group ("the Group") whose activities comprise the generation, transmission and distribution of electricity, energy management and the supply of electricity and gas principally in the United Kingdom ("UK"). The Company is a wholly-owned subsidiary of Iberdrola, S.A. ("Iberdrola"), one of the largest utility companies in the world and a leader in renewable energy.

Scottish Power Limited ("SPL") is the UK holding company of the Scottish Power Limited Group ("ScottishPower") of which the Company is a member.

The three divisions operated by the Group during the year were Energy Networks, Renewables, and Energy Retail and Wholesale, which are owned by their respective Head of Business Sub-holding companies: Scottish Power Energy Networks Holdings Limited ("SPENH"), ScottishPower Renewable Energy Limited ("SPREL"), and Scottish Power Retail Holdings Limited ("SPRH").

The Head of Business Sub-holding companies have their own boards of directors with the necessary autonomy to carry out the day-to-day management and effective administration of their division.

Further information regarding the corporate governance and board structure of ScottishPower is set out in the 'Corporate Governance section' of the Directors' Report' on page 50.

OUR ACTIVITIES

The Group has three divisions:

Energy Networks
Energy Networks is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and electricity transmission and distribution licences of the Group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

Renewables
Renewables is responsible for the origination, development, construction and operation of renewable energy generation plants, principally onshore and offshore wind, with a growing presence in battery storage and solar. Renewables' ambitious growth plans include expansion of our existing onshore portfolio harnessing a 5.9 gigawatts ("GW") pipeline, investing in new large-scale onshore wind and solar deployment and Battery Energy Storage Systems ("BESS"). Renewables' 41 wind farms produce over 2.8 GW of clean, renewable energy which supplies the equivalent of more than 2 million homes.

Energy Retail and Wholesale
Energy Retail, also known as our Customers business, is responsible for the supply of electricity and gas to almost five million domestic and business customers throughout the UK, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity, including the smart meter installation programme, and for managing the Group's smart solutions activities which launched the UK's first nationwide installation service for air source heat pumps, solar panels, batteries and electric vehicle ("EV") charging in 2022. In a pioneering strategic move to support the UK's efforts to achieve 'net zero' by 2050, Energy Retail's Hydrogen department was established in 2020 and is working with businesses to seek appropriate green hydrogen solutions.

Energy Wholesale is responsible for managing the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables, and the optimisation of gas storage.

2022 financial highlights

REVENUE £8,434.9m
(2021 £5,349.7m)

OPERATING PROFIT £834.5m
(2021 £720.4m)

CAPITAL INVESTMENT £930.1m[1]
(2021 £999.0m)

NET DEBT £(5,360.2)m[2]
(2021 £4,524.0m)

1 Additions to Intangible assets (refer to Note 6 on page 88), additions to Property, plant and equipment and reassessment of decommissioning asset within Property, plant and equipment (refer to Note 2A2.2 on page 72 and Note 7 on page 90).

2 Net debt has been restated to include Interest receivable from Iberdrola Group companies. Refer to 'Liquidity and cash management' section of Strategic Report.

OUR PURPOSE, VALUES, STRATEGY AND ROLE

Iberdrola and ScottishPower are "committed to an energy model that prioritises the wellbeing of people and the preservation of the planet."

OUR PURPOSE

Shaping the future of energy in the UK

We were the first integrated energy utility in the UK to have 100% of its generation of electricity derived from renewable energy sources. Our focus is on wind energy, smart grids, and driving the change to a cleaner, electric future. We are playing a leading role in the delivery of a clean, low-carbon system for the UK, currently investing the equivalent of £8 million every working day between 2023 to 2025 to create a better future, quicker.

With our plans to invest significantly in renewables generation and the electricity network infrastructure that will support the green transition, we are well-placed to contribute to the UK achieving its net zero ambitions. In November 2022, as part of the €47 billion investment programme announced by Iberdrola, ScottishPower confirmed plans for £6.7 billion of investment in clean energy between 2023 and 2025 across our Energy Networks and Renewables divisions and set out our ambitions for the years beyond. Under these plans, we expect to significantly extend our existing renewable generation capacity, including the development of the East Anglia Hub ("EA Hub") offshore wind complex, which is, through ScottishPower, Iberdrola's biggest investment anywhere in the world and one of the largest offshore wind projects globally.

The UK has led the world in decarbonising the power sector, but if we are to deliver the UK Government's ambition of generating 95% of electricity from low-carbon sources by 2030, we need to accelerate. To meet the UK's net zero target, the amount of renewable generation that needs to be connected will increase significantly. So too, will levels of electricity demand, as we move to cleaner forms of transport and heating.

In April 2022, the UK Government's Energy Security Strategy set a new target of 50 GW of offshore wind (including up to 5 GW of floating offshore wind) by 2030 and emphasised the importance of strategic investment in a smarter, modernised energy network, with the ambition of delivering a zero-carbon power system by 2035.

Our Renewables and Energy Networks divisions made further progress in supporting the delivery of these goals by securing a record number of green energy infrastructure projects during 2022. For Renewables, these projects have included the award, as part of the ScotWind auction, of seabed rights for three offshore projects (two in partnership with Shell) with total capacity of 7 GW; and success for 16 renewable energy projects (offshore, onshore and solar) across the UK in being granted Contracts for Difference ("CfDs") through the Allocation Round 4 process. For Energy Networks, in November 2022, the UK's energy regulator (The Office of Gas and Electricity Markets ("Ofgem")) issued its Final Determination on the RIIO-ED2 distribution price control, which will run from 2023 to 2028. The five-year investment package is expected to facilitate a £3 billion upgrade to Energy Networks' distribution network. Funding for a number of significant green energy network infrastructure projects progressed during the year, including the development of strategic transmission network proposals laid out in the Electricity System Operator's ("ESO's") Holistic Network Design plan, which set out the need for investment in twelve of Energy Networks' onshore transmission projects considered essential for delivering the UK's 2030 offshore wind targets.

Over the course of 2022, the future of energy in the UK became an issue of critical importance. Post-pandemic demand increases, combined with supply constraints linked first to the pandemic and then to the war in Ukraine, caused global wholesale gas prices to rocket and remain volatile throughout the year. Energy Retail and Wholesale has operated in challenging conditions as a result of unprecedented volatility and increased costs in wholesale energy markets. We recognise the negative impact that the cost of living crisis is having on our customers and we have played a leading role in policy debates with government and regulatory stakeholders on the measures required to mitigate the worst impacts of high energy prices for domestic and non-domestic consumers and to ensure the energy supplier market can fully recover its costs and operate on a more sustainable footing.

With continuing increases in energy prices presenting real challenges, protecting our customers through this period has been a key priority. Alongside our own actions to help manage customer payments and offer support, we have welcomed the measures taken by the UK Government to support customers, and we have worked hard to support the delivery of a succession of government support schemes, which have included the Energy Bill Support Scheme ("EBSS") and the Energy Price Guarantee ("EPG") for domestic customers, and the Energy Bill Relief Scheme ("EBRS") for non-domestic customers. In November 2022, the UK Government extended the operation of the EPG from March 2023 to March 2024 and indicated its readiness to consider longer-term changes to the energy retail market, including the provision of a social tariff to help the most vulnerable households. In January 2023, the UK Government announced that the EBRS will be replaced when it ends in March 2023 by a new Energy Bills Discount Scheme ("EBDS") which will run from April 2023 until March 2024, but with a lower scale of support than the current EBRS.

In line with the government initiatives, we have also been sharing information with our customers on the actions they can take to reduce their consumption. We have welcomed the UK Government's ongoing engagement with industry on energy efficiency measures, including the Energy Company Obligation ("ECO") schemes, and the provision of additional funding between 2025 and 2028 to deliver an ambition of reducing the UK's final energy consumption from buildings and industry by 15% by 2030 (against 2021 levels). We continue to engage with the UK Government on the effective and timely delivery of energy efficiency measures.

In November 2022, the UK Government also announced the introduction of the Electricity Generators Levy ("EGL") on a variety of forms of low-carbon generation, expected to apply from 1 January 2023. The EGL is expected to levy an additional 45% tax on receipts made above an average output price of £75 per megawatt hour ("MWh"). The EGL is expected to endure until March 2028, with no levy due if the prices received by a generator were to fall below the benchmark price. We continue to engage with policymakers on the detail of the approach. Refer to 'Renewables – Outlook for 2023 and beyond' section of the Strategic Report for further details.

Delivering a better future, quicker for everyone

The UK's climate change ambitions, the increasing importance of energy sovereignty, and the emergence of the cost of living crisis, all point to a need for speed in delivering more green, more secure and more affordable energy. These three critical needs are not in conflict with each other and given our unique position in the UK as the only integrated energy company investing in renewables, electricity grids and helping homes to decarbonise, the Group's resilient business model is an engine for delivering decarbonisation and growth across the communities we serve.

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

We have decades of experience delivering the green and secure energy system the UK needs. From supporting vulnerable people to making the energy transition to building the renewable generation that our economy needs; from modernising our electricity networks to connect more renewable energy and enabling the EV revolution to pioneering the development of floating wind deep offshore generation; we have a clear vision for secure, green and affordable energy across the UK.

Our record of achievement during 2022 provides us with our biggest ever investment pipeline of green energy assets to help deliver the UK Government's energy strategy and net zero for the UK. As a direct result, in July 2022, we announced our largest-ever recruitment drive, with a target of having at least 1,000 people to join us in new positions to design, build and operate this green energy infrastructure. These roles will be directly employed across all our divisions and at all stages, from trainees to time-served trades and supporting roles. The UK supply chain will also see a further boost and potentially thousands more indirect jobs created as the Group's billions of pounds worth of projects advance at pace.

We believe in developing an energy model that prioritises the wellbeing of people and the preservation of the planet. Recognising the importance of taking care of the environment and people's health, we want to offer society our experience in addressing these urgent social needs through our work on the decarbonisation and electrification of the economy as a whole, using renewable energy sources, efficient energy storage, smart grids and digitisation.

We share Iberdrola's purpose and values, and this is the bridge that connects the communities we serve with our growing Group. We are dedicated to the purpose of building together, each day, a healthier, more accessible energy model, based on electricity.

OUR VALUES

Our values rest on continuing to develop as a leading global and sustainable group in the 21st century. To meet our purpose, we are founded on the following three corporate values that define the Group's identity and form the foundation of our strategy.

Sustainable Energy ("Sustainable")

We are pioneers of renewable energy. We seek to inspire others by creating economic, social and environmental value wherever we are now, and looking to the future. We put this value into action by continually putting safety first, respecting the environment, and acting ethically, rationally and responsibly to meet our commitments.

Integrating Force ("Collaborative")

We are an energetic and responsible force for change. Through working together, we build and grow talent to achieve our common goals and purpose. We put this value into action by sharing knowledge and information; working together with our employees, suppliers and customers; and by breaking the mould and encouraging diversity.

Driving Force ("Dynamic")

We bring about efficient change, big and small, through constantly challenging ourselves and our processes. We innovate to deliver continuous improvement. We put this value into action by asking how we can do things more simply or efficiently, coming up with ideas and leading innovation, and anticipating our customers' needs.

OUR STRATEGY

Our strategy is to create value from investment in networks, renewable energy generation and retail to help our customers realise a better future, quicker, under the pillars of our strategic values.

Our key strategic goals include:

- investing in networks to make them smarter and more resilient, and creating a platform for the UK's sustainable electric future;
- investing in renewable energy generation, principally onshore and offshore wind, solar and battery storage, to address the climate emergency and reduce the cost of electricity generation;
- creating a fair, transparent, competitive and financially stable retail market where customers are protected from irresponsible practices and are in control of their energy usage through digitisation and smart metering;
- supporting and guiding domestic and business customers through their journey to help them decarbonise and be more efficient in their energy consumption;
- designing and delivering an energy system to facilitate and encourage the growth of EVs and clean heating solutions to improve air quality and tackle climate change; and
- facilitating the decarbonisation of sectors of the economy that are challenging to electrify, such as heavy industry and transport, through the development and application of green hydrogen solutions.

In November 2022, in support of this strategy, we set out plans to invest £6.7 billion in the UK between 2023 and 2025 in network infrastructure, clean energy generation and storage and smart solutions opportunities. We will increase our capital spending in the UK, with £6.7 billion to be spent predominantly on growth between 2023 and 2025, including £3.3 billion on electricity network investment and nearly £3 billion on renewable generation projects.

OUR ROLE

In the wider legislative, regulatory and commercial context in which we operate, our commitment to playing a leading role in the UK's contribution to combating climate change has been reflected in a number of significant developments during 2022. Building on the publication of the UK Government's Energy Security Strategy in April 2022, we have contributed actively to the development of thinking in a range of significant areas of policy.

As the only energy company in the UK with a role across the entire energy value chain of generation and storage, transmission and distribution, and supply to domestic and business customers, we are uniquely placed to make an active and distinctive contribution to these policy debates. In July 2022, we published 'The Need for Speed' policy document, which set out ten recommendations for delivering green energy security, affordably and at pace.

OUR PURPOSE, VALUES, STRATEGY AND ROLE *continued*

The recommendations identified practical steps to:

- make faster progress on energy efficiency to reduce demand and cut household bills;
- incentivise the move to low-carbon, electric homes;
- rebalance energy bills to spread costs more fairly;
- provide enduring support for the most vulnerable customers through a social tariff;
- speed up the deployment of renewables;
- legislate to embed net zero priorities across relevant authorities and statutory bodies;
- repower existing onshore wind at pace;
- ensure agile regulation to back 'no regrets' network investment;
- speed up planning for grid infrastructure; and
- prioritise the commercialisation of low-carbon hydrogen.

Across all areas of our business, we contend that the pace of change needs to become quicker and we need to ensure everyone benefits from the green transition; a theme drawn out in the publication of our updated Just Transition Strategy in November 2022.

In September 2021, we announced a significant new partnership with the World Wide Fund for Nature ("WWF"), the world's leading independent conservation organisation, to help accelerate the UK's transition to net zero. The unique link-up (the first time in more than a decade that WWF has worked with a UK energy company) is pursuing a programme of policy advocacy to champion low-carbon energy solutions and to call for ambitious climate action. In July 2022, we published 'Better Homes, Cooler Planet'; a joint research report with the WWF on the environmental and economic benefits of installing low-carbon technologies in UK homes.

Speeding up the journey to net zero is at the heart of everything we do, and each of our divisions has an active role to play in achieving this goal.

ENGAGING WITH STAKEHOLDERS

THE IMPORTANCE OF ENGAGING WITH OUR STAKEHOLDERS

As part of the Iberdrola Group, we are developing a responsible and sustainable energy model which focuses on the wellbeing of people, the protection of the environment, and the economic and social progress in the communities in which we operate. We strongly believe that effective and meaningful engagement with stakeholders, especially employees, is key to promoting the success and values of the Group.

Meaningful engagement with our stakeholder groups supports the ethos of section 172 of the Companies Act 2006 which states that directors should have regard to stakeholder interests when discharging their duty to promote, in good faith, the success of the company for the benefit of its members as a whole for further insight, (refer to the Section 172 statement on page 49). Details of how the Group and our individual businesses engage with our stakeholders, and how these activities influence the Group's operations, are set out below.

Our key stakeholders

We have five key stakeholder categories:

Behind these stakeholders are millions of people, and thousands of institutions, organisations and groups. All of them, with their decisions and opinions, influence the Group and, in turn, are affected by our activities. In addition, these stakeholders interact with each other, creating a universe of relationships that the Group needs to manage in order to achieve a better understanding of our operating environment and to deliver a more sustainable performance across our activities.

Our shareholders are also important to us. All shareholder management activities are carried out on our behalf by our ultimate parent company, Iberdrola, which is listed on the Madrid Stock exchange. Iberdrola is committed to dialogue, proximity and actions in favour of shareholders. Iberdrola is one of the first companies in the world to formalise a Shareholder Engagement Policy focusing upon two-way interaction with the shareholders in order to forge a sense of belonging and to encourage their engagement in the corporate life of Iberdrola. Iberdrola's Shareholder Engagement Policy is published at is published at www. iberdrola.com under 'Corporate Governance'/ 'Governance and Sustainability System'/ 'Corporate Governance' / 'Corporate Governance and Regulatory Compliance Policies' / 'Shareholder Engagement Policy'.

ENGAGING WITH STAKEHOLDERS *continued*

"People, our most important asset"

EMPLOYEES

The Group employs approximately 5,750 employees, working across a range of roles within our Energy Networks, Renewables, and Energy Retail and Wholesale divisions as well as our Corporate function. Our employees make a real difference in determining how successfully we operate. The creativity, innovation and individuality of our employees enables us to build on our future capability to operate effectively in a competitive market and continue to have aspirations which are challenging and rewarding. We respect and recognise the importance of individuality as part of our ongoing commitment to promoting a culture where individuality is celebrated. We also understand that being a diverse organisation goes beyond having legally compliant policies and practices; it includes a focus on creating an innovative, integrated organisation where people feel valued, inspiring them to perform at their best.

In July 2022, we launched a recruitment drive for 1,000 green jobs to be filled by the end of next year in order to develop, build, and operate our largest investment of green energy technologies. These roles will be directly employed across all areas of our businesses and at all stages, from trainees to time served trades and supporting roles.

Employment regulation

We have well-defined policies in place throughout our divisions to ensure compliance with applicable laws and related codes of practice. These policies cover a wide range of employment issues such as disciplinary, grievance, harassment, discrimination, stress, anti-bribery, anti-corruption and whistleblowing, and have been brought together in the Code of Ethics of Iberdrola and its group of companies ("the Code of Ethics"), which also outlines expectations for employees' conduct.

Training

We have a continuing commitment to training and personal development for our employees and provided 5,378 training events in 2022 (3,205 in 2021). Throughout 2022, the focus has been on delivering mandatory health and safety training and enhancing capabilities and competence of new and existing staff in our core business divisions.

During 2022, we have recruited over 280 apprentices, graduates and trainees who are undertaking structured training programmes leading towards the achievement of nationally recognised trade apprenticeships, other accredited qualifications or specific training programmes.

Our focus for leadership in 2022 has been on our core value of collaboration. We have developed a cohort of 17 senior leaders in methods of inquiry to explore and research how we better collaborate across the Group. In addition, we have developed a new Leadership Academy framework called 'Always Leading' and have piloted first-line people-leader workshops on Introduction to Management across 112 of our new and existing people leaders. As part of the Leadership Academy, they are also given access to LinkedIn Learning with a range of leadership learning collections to support their development. We continue to offer team development support through our Team Effectiveness Toolkit and Team Performance sessions with external facilitators or coaches.

This has included providing everyone with a LinkedIn Learning license with curated learning collections on a range of leadership topics and our leadership potential indicators. Coursera licenses and access to top university courses have also been made available for certain populations. In addition, two mentoring programmes have been launched – Women in Leadership and Global High Potential mentoring as well as access to executive coaching for those with specific development needs. Finally, we have run a series of facilitated sessions with our global high potential talent to support their development needs and delivered two leadership masterclasses on personal branding and leadership transition for our talent population.

Employee feedback and consultation

Our employee engagement survey is called 'the LOOP'. The LOOP provides an opportunity for our employees across the organisation to share their views on their employee experience and is completed by all employees bi-annually. The last full survey was completed in May 2021 and our response rate was 76%. Overall, the positive insights from the LOOP feedback showed an increase in employee engagement and enablement across the Group. The opportunities highlighted from the survey included ensuring a focus on cross-business collaboration, which aligns with our values as described in detail on page 3.

As well as employee feedback through the LOOP, we consult regularly with employees and their representatives via a variety of channels, including virtual business conferences, health and safety committees, employee relations and engagement forums, and employee-led networks.

Inclusion and diversity

We are committed to driving diversity in the energy industry, increasing our diverse and inclusive workforce whilst taking action to address the deepening skills shortage in the sector.

We want to attract and inspire the best talent regardless of gender, age, sexual orientation, disability, ethnicity or any other factor. We value every individual's differences and the insights they bring to how we think, what we believe and who we are.

We recognise the importance of work-life balance, and many of our roles offer hybrid working, allowing employees to split their time between the office and home. Additionally, as part of our recruitment process, we encourage discussions on flexible working.

We published our latest Gender Pay Report on 8 March 2023 in which we reiterated our commitment to pay for performance equally and fairly. This continued our focus on breaking down barriers across the employee lifecycle, as over time this will improve our gender pay gap position whilst widening the inclusion of other under-represented groups. For more information, the latest Gender Pay Report is published at www.scottishpower.com under 'Careers'/ 'Inclusion at ScottishPower'/'Gender Pay Reporting'. Since October 2018, all recruiting managers must complete e-learning and training on unconscious bias before their vacancies are authorised.

As part of our commitment to closing our gender pay gap, our Senior Leadership Team set two aspirational targets in 2018 to break down the barriers for women:

- increase in the proportion of women in our senior management population to exceed 30% by 2022; and
- increase in the proportion of women in our middle management population to exceed 40% by 2022.

ENGAGING WITH STAKEHOLDERS *continued*
EMPLOYEES *continued*

The 2022 Gender Pay Report published on 8 March 2023 highlighted that the proportion of females within our senior management population has increased to 32% (2021 26%). The proportion of females within our middle management population has remained static at 31% (2021 31%). This is as a result of continued growth in our Energy Networks and Renewables divisions and reflects the pipeline for external talent.

We have a number of programmes in place to address this and progress is monitored on a continuing basis:

- Inclusive recruitment principles such as balanced shortlisting and gender-balanced interviewing are now incorporated into all our external recruitment campaigns. Recruitment consultants encourage all hiring managers to adopt these inclusive recruitment principles.
- All of our job advertisements are reviewed using gender de-coding (i.e. highlighting masculine and feminine language).
- We continue to share best practice through the Energy Leaders Coalition which comprises 16 of the leading chief executive officers ("CEOs") from the UK's energy sector who have made a public declaration to improve gender diversity in their groups and in the sector as a whole.
- We are a corporate partner of the Women's Engineering Society to help with the important work that they do in supporting women engineers and encouraging girls to see engineering as a career option.
- We continue to provide Maternity/Parent Coaching to females within our talent population who are on the maternity journey, whether that be preparing for, or on, leave, or returning to work. The coaching blends practical support and advice to both the participants and the line mangers as well as focused career coaching to maximise the participant's potential for future progression.
- Our 'New Additions to Your Family' guidelines launched in November 2021 provide sector-leading leave benefits for all ScottishPower employees regardless of service. These include 26 weeks' full pay for maternity and adoption leave and two weeks' full pay for paternity leave. Returners from maternity and adoption leave are also entitled to a phased return where they will receive 100% contractual pay for working 80% of their duties for three months. These guidelines were designed in collaboration with the Group's employee network who support parents and carers ("SPACE").
- Additional guidance on Menopause and Menstrual Health and Domestic Abuse have been developed and communicated in collaboration with the Group's Connected Women's employee network.

In addition, we are promoting gender equality through the Science, Technology, Engineering and Mathematics ("STEM") engagement initiative. Throughout 2022, we have delivered our STEM message to primary, secondary, college and university pupils and students via face-to-face events and workshops. The Group works with a range of partners and events to communicate our early careers programmes to school children and their families.

The STEM Returners programme aims to help employees returning to work after a lengthy career break to grow and develop their career, offering the time and support needed to refresh and redevelop their skills to help them in returning to employment on a more permanent basis. The 2021/22 cohort saw four out of the ten participants securing a permanent job with the Group as a direct result of taking part in the programme.

We continue to work with a number of recognised organisations as part of our commitment to diversity and inclusion. These include: the Business Disability Forum, The Armed Forces Covenant, Carers UK, ENABLE Scotland and POWERful Women. We are recognised at the highest level of accreditation of the Armed Forces Covenant (Gold Status) for initiatives we have in place as a 'forces-friendly' employer and in 2022 we were awarded the Inclusive Workplace Award by the Scottish Union of Supported Employment for the second year in succession.

We expect all our employees to be treated with respect and we have supporting policy guidance to help ensure equality of employment opportunity for people with disabilities. We have maintained our Disability Confident standard and our accredited level at 'established' with Carers Scotland.

In 2022, the fifth cohort of the inspirational Breaking Barriers programme continued online. The programme aims to support aspirations for young people with learning disabilities and provide equal opportunities to access university courses. Between April and June 2022, ten learners aged between 18 and 24 studied for a Certificate in Applied Business Skills at the University of Strathclyde Business School. As part of this experience, the learners gained valuable skills and work experience as part of a placement with the group.

The Group continues to support the growth of our existing employee-led networks:

- Future Connections – to bring people together from across the Group with an appetite to communicate and learn about activities in other business areas;
- Connected Women – a confident and vibrant network for ScottishPower women;
- SPACE – to give employees access to support and guidance on all aspects of being a parent or carer;
- In-Fuse – to represent LGBT+ colleagues and allies alike;
- VIBE – focussed on ethnicity; and
- iCan – a platform to encourage, create and promote authentic leadership for climate action in both the professional and personal lives of all ScottishPower employees.

In December 2022, we launched our first employee network focused on disability. This network was created by a group of employees in ScottishPower to provide a platform for all staff who identify as disabled, neurodivergent or having a long-term health condition, visible or invisible.

All of our networks continue to engage with their members through online awareness sessions, and, celebrating key dates on the inclusion calendar as well as sharing knowledge to promote personal development. The networks also play a key role in the attraction and retention of new employees from under-represented groups to maximise engagement and performance. We continue to promote our commitment to inclusive employment through our external careers website, 'Inclusion at ScottishPower'. This is a dedicated space on our website which promotes important initiatives that go on internally, such as our employee networks, involvement with community programmes, partnerships with external organisations and our Gender Pay Report.

ENGAGING WITH STAKEHOLDERS *continued*
EMPLOYEES *continued*

Rewards and benefits
As our business continues to change and evolve, it is important that the benefits that we provide to our employees also develop to meet these challenges. We recognise that the benefit needs of employees are unique to the individual and we want them to be able to tailor benefits to their own circumstances. We provide a benefits programme, 'Your ScottishPower Benefits', which offers employees the flexibility to choose from a range of benefits, such as participation in the ScottishPower Share Incentive Plan, purchasing a bike through the Cycle to Work scheme, or purchasing additional holidays. The ScottishPower Electric Vehicle Salary Sacrifice Scheme was introduced as an employee benefit in 2022. This scheme allows employees to initially lease, and then purchase, an EV in a cost-effective manner. Employees can also participate in one of the Group's pension schemes. The Group has a defined contribution plan and two defined benefit schemes which allow employees to save for their retirement. All employees who have joined the organisation on or after 1 April 2006 have been offered membership of the defined contribution plan, the Iberdrola Group (UK) Stakeholder Pension Plan.

Health and safety
Employee health and wellbeing, the prevention of harm to employees, contractors and members of the public, and the protection of business assets and operational capability, are our top priorities. During 2022, we have continued to strive for improved performance. Both internal, and external health and safety assessments have returned positive findings.

We have an established Health and Safety Management System ("HSMS") to ensure that the Group and its employees meet all applicable internal, external, legal and regulatory requirements and standards, and aligns with the Iberdrola global health and safety approach. This HSMS provides an overview of how health and safety risks are managed across the organisation. The HSMS includes items such as:

- The Health and Safety Policy, which details what we want to achieve with respect to health and safety, who will implement the requirements (detailing the roles and responsibilities) and how the policy will be achieved.
- How the health and safety programmes (e.g. the annual Preventive Activity Plan, Operational Plans and Communications Plans) have all been implemented. All of these are aimed at maintaining and improving health and safety performance.
- How compliance is delivered through a governance structure, audits and inspections and external and internal certification.
- An annual training plan is established to ensure employees are competent based on appropriate education, training or experience.
- A risk assessment procedure details how we will manage and control hazards and risks.
- An established annual Health and Safety communication plan.
- At a Group level, a Health and Safety Management Review is completed every six months and a specific report format used to record and communicate the findings.

To work in conjunction with the Group HSMS, each of our divisions has its own specific HSMS. Each division's HSMS expands upon the Group HSMS; they are not intended to duplicate or contradict, but to focus on division-specific scope of works and requirements.

Health and safety performance
We successfully maintained our ISO 45001 certification following a surveillance audit in 2022. For global consistency purposes, Iberdrola and therefore ScottishPower, moved from using lost time accidents as one of the primary measurements for health and safety performance to the Total Recordable Injury Rate ("TRIR") at the start of 2022. TRIR is an expanded measure and captures lost time accidents, medical treatment and restricted work incidents. The annual ScottishPower employee accident and incident statistics remained low with eight TRIR incidents in 2022, which equates to a TRIR of 0.17. For contactors, there were 26 TRIR incidents which equates to a TRIR of 0.49. Three of the TRIR employee incidents were reported to the Health and Safety Executive ("HSE") under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations. There was also one Occupational Health case reported to the HSE under the same Regulations.

The table below provides the occurrence of TRIR incidents in each business division (including the Corporate functions):

	Employees		Contractors		Total	
TRIR incidents*	**2022**	2021**	**2022**	2021**	**2022**	2021**
Energy Networks	**7**	10	**14**	11	**21**	21
Renewables	**1**	–	**7**	9	**8**	9
Energy Retail and Wholesale	**–**	–	**5**	2	**5**	2
Corporate	**–**	–	**–**	–	**–**	–
	8	10	**26**	22	**34**	32

* TRIR incidents include lost time, medical treatment and restricted work incidents.

** 2021 values have been restated to show TRIR incidents.

As shown above, there were eight employee TRIR incidents during 2022 compared to ten in 2021 and 26 contractor TRIR incidents compared with 22 in 2021. Based on these figures along with the results from audits and inspections, health and safety standards and performance within the Group remain high.

ENGAGING WITH STAKEHOLDERS *continued*
EMPLOYEES *continued*

Public safety

In addition to the physical measures we take to protect the public from electricity, for example secure compounds, safety distances and signage, we also strive to raise electrical safety awareness with the public and the emergency services via a number of campaigns and initiatives.

Various methods of communication have been used to deliver key messages including attending several agricultural and 'Crucial Crew' events. Social media channels were utilised to reach different audience groups such as the agricultural industry, construction workers and general members of the public as well as promoting safety for children as part of our ongoing safety campaigns.

We continue to support three public access safety centres where our key health and safety messages are presented to children through substation and overhead powerline interactive props, presentations and verbal safety advice. Our PowerWise interactive website has continually been promoted to schools and parents as a curriculum-linked teaching resource to inform young people about the dangers of electricity, which provides free, interactive resources. We have worked with the emergency services providing them with electrical safety awareness presentations as well as offering support to them when any incidents have occurred. Various national communication campaigns have been delivered throughout 2022 and significant work was done in conjunction with the Energy Networks Association for the production and promotion of consistent energy and utility health and safety messages.

Employee health and wellbeing

We promote and support the physical and mental health and wellbeing of our employees through a programme of health promotion and information run by our occupational health department. In addition to the typical activities carried out by this department, and as part of our focus on health and wellbeing, conscious efforts have been made to reduce the stigma and discrimination surrounding mental health and increase the support available to employees.

Our Occupational Health department has initiated a mental health first aiders' training programme and support forums. A Mental Health Steering Group was introduced in early 2020 with the purpose of creating a working environment where we all feel safe and able to talk openly about mental health and providing the support that will help keep us well. There are representatives from each of the divisions and the corporate functions on the steering group. Conversations continue to become more open around mental health and typical campaigns have become standard practice, including Mental Health Awareness Week, World Suicide Prevention Day and World Mental Health Day. In addition, the Occupational Health department has developed a dedicated mental health training programme for line managers in collaboration with the Scottish Association for Mental Health and Mind. This has stemmed from the SeeMe survey undertaken in 2020, which was shared with the Senior Management Group.

Providing ongoing health and wellbeing support has been vital during 2022. The Occupational Health team has employed a dedicated Health and Wellbeing Consultant to work alongside them, whose role is to support all employees and broaden the reach for all staff to be able to access a wider wellbeing programme. In addition, where necessary, ongoing assistance has been given to support those who have suffered from COVID-19.

Working within the Occupational Health department are the occupational hygienists whose role is to help identify potential chronic health risks (from exposure to industrial processes) and to provide mitigating solutions to reduce the risk of harm. This work provides the basis for all statutory health surveillance requirements, which the occupational hygienists and the wider Occupational Health department are responsible for.

"Putting people first to achieve a better future, quicker"

ENERGY CUSTOMERS

We provide energy and related services to millions of domestic and business customers. Our success depends on our ability to understand and meet the needs of our customers, and engagement is key to our success in this rapidly changing environment. We seek feedback in several ways including forums, market research and product testing, as well as via complaints channels and surveys.

Energy Networks

We recognise the importance of the current cost of living crisis and the impact it is having on us all, particularly those who are most vulnerable. We have an important role to play in supporting our communities through the energy transition and moreover, ensuring we go above and beyond for our communities and that no one is left behind. We are aware that the energy crisis has been hitting our customers hard, especially those who are already in fuel poverty. That is why we work with local partners to provide a range of financial and social support services beyond power cuts.

Understanding and responding to our customers' needs is not only deep-rooted in our culture but is also essential to meeting the goals we have developed with stakeholders to guide our future plans. Our commitment to our customers is reflected in our customer service scores which continue to trend above Ofgem's target of 8.2. In the regulatory year 2021/22, SP Distribution plc ("SPD") and SP Manweb plc ("SPM"), achieved a customer satisfaction score of 9.17 and 9.21 out of 10 respectively. For our transmission business, as part of our RIIO-T2 transmission price control business plan, we are committed to improving the quality of service as measured through the Quality of Connections survey, more commonly known as the 'Moments that Matter'. For the first year of RIIO-T2 (regulatory year 2021/22) our customers rated us at 8.3, against a benchmark of 7.7. Whilst our score was the highest amongst the UK's transmission operators, we continue to focus on how we serve our customers.

Delivering for our customers

Power cut support service

Where possible, we take all steps necessary to prevent customer detriment tied to a power cut. When a power cut does occur, we work tirelessly to get our customers back on supply and, while we do this, we proactively offer a range of services designed to meet different types of customers' needs. These include winter welfare packs, hot food and generator provision. Customers who feel they may need extra support during a power cut can join our Priority Services Register, enabling quick and easy access to twelve support services. This includes dedicated support, provision of hotels and company to vulnerable customers after twelve hours during exceptional events. In 2021/22 we delivered 111,147 power cut support services.

ENGAGING WITH STAKEHOLDERS *continued*

Customer needs tracking tool

We introduced a tool in 2020 which tracks our vulnerable customers' personal and diverse needs, allowing us to understand them and ensure that our support services and processes satisfy them. Energy Networks' training programme, 'Making a Difference', focuses on vulnerability and the challenges these customers face day-to-day. It explores how an outage, fault or work delivered by Energy Networks could impact customers and demonstrates how Energy Networks' processes, conversations, and support options help our customers and communities when needed.

Engaging with our stakeholders

We aim to ensure that our stakeholders' views are considered in everything that we do. We align our stakeholder engagement strategy with the Stakeholder Engagement Standard AA1000 set by AccountAbility. We achieved 85% in the 2022 AccountAbility audit; achieving the highest categorisation possible ('Advanced'). This represents an overall improvement of 19% since our first audit in 2018. Energy Networks continues to work closely to identify the needs of vulnerable customers and stakeholders as measured by Ofgem stakeholder engagement incentive. The scores for the stakeholder engagement incentive for the regulatory year 2021/22 was 5.29 out of 10 for both SPD and SPM. This compares to 7.08 in 2020/21 reflecting a challenging year for the utilities industry due to increased prices.

Maintaining a reliable supply of electricity

Society rightly expects to consistently receive a reliable supply of electricity at the flick of a switch,which is why we continue to strive to exceed our RIIO-ED1 regulatory price control commitments and will continue to do so as we enter into the RIIO-ED2 period. This year has continued to see unprecedented challenges for the energy sector. We have continued to serve our distribution customers with 99.99% reliability levels for 30p per day, protecting the most vulnerable and ensuring supply to critical sites such as hospitals, nursing homes, water treatment works and food supply businesses.

Energy Retail and Wholesale

Customer service

Delivering excellent customer service to our customers when they need to contact us continues to be our key priority. Across Energy Retail, we work hard to ensure the customer is at the centre of everything we do and is everyone's focus. We continually assess our processes and customer journeys, and identify and implement improvements to ensure we meet our expectations and those of our customers. We are relentless in our pursuit to improve our customer experience.

We continue to focus on delivering customer service through a number of digital channels as well as retaining our traditional telephone channels. Digital tools are the channel of choice amongst our customer base with mobile apps now being our most frequently utilised self-service tool, alongside digital online web chats. In 2022 we were recognised for our digital commitment by providing customers with a 'best in class' user experience across our iOS and Android apps through the award of the eCommerce 'App of the Year'. Web chats have seen a rapid growth in 2022 and greater use of automation. Continued investment supporting in-house digital development capabilities enabled the rapid design and creation of multiple new customer centric processes and refinements to meet the continued demands of customers and help manage operational requirements. Offering increased flexibility around payments and digital communication methods, we can respond rapidly to the evolving situation and meet the needs of our customers. In addition to the growth and enhancements to key self-service account tools, there has been a continued focus on leveraging the capabilities of smart meters to deliver automated services and insights to help customers gain a better understanding of their energy usage, and digitise processes such as smart prepayment top-ups and more granular consumption insights.

Support we are offering

A key issue in 2022 was the impact of the cost of living crisis including the increase in energy prices in the UK. In response, the UK Government launched three support schemes for both domestic and business customers; further details of these schemes are included in the 'Energy Retail and Wholesale operating review' section of the Strategic Report. The importance of these payments to domestic and business customers and a general concern around affordability has resulted in a significant increase in customers contacting us across all contact channels and in particular those customers that are financially and non-financially vulnerable.

Prior to the increase in energy costs, we already had a range of support measures in place for our customers in vulnerable circumstances, whether financial or non-financial (and recognising that there can quite often be an overlap between the two). These services include:

- a range of contact options for customers to use to get in touch with us;
- automatic routing of customer calls to specialist support teams to manage contacts from customers who we identify may need additional support to manage their account, based on account information we hold (including those with prepayment meters);
- support options offered under our Priority Services Register for those non-financially vulnerable customers who may find it more challenging to manage their energy account;
- alternative payment options and tariffs for different customer circumstances;
- flexible repayment schemes for those who have built up debt;
- advice on how to reduce energy consumption through simple actions by the customer or via the ECO scheme;
- signposting to third parties who can offer additional guidance and support;
- signposting to our own Hardship Fund and our Prepayment Voucher Scheme; and
- a dedicated team of National Community Liaison Officers whose sole purpose is to provide in home support.

ENGAGING WITH STAKEHOLDERS *continued*

We have further reviewed our approaches to ensure we are doing as much as we can to support customers struggling to pay for their energy, and in 2022 implemented the following:

- Setting up, and continuing to increase, resource within a dedicated Affordability Team, consisting of specially trained customer service agents, to provide customers either at risk of, or already experiencing, payment difficulty with tailored information, tools and support at a time when they need it most.
- Strengthening our links with key third party organisations to help inform and adapt our approach moving forward. This includes a new partnership with StepChange, the UK's leading provider of free, independent debt advice. This partnership supports us in our signposting for customers to receive additional support, and we have also utilised StepChange in our training of agents within our new Affordability Team.

Our focus is on prompting customers to engage with us as early as possible so that we can provide the support they need, whether that be within the actions we can take ourselves, or in ensuring those customers who need broader support than we can offer, have direct access to third parties who can provide it.

We are also raising awareness of the measures customers can take to reduce the impact of increasing energy costs. This includes arranging for a smart meter to be installed, which is the best way to track energy consumption by showing a customer the cost of the energy they are using and ensures they only pay for the energy they use by providing us with regular, automatic meter readings.

We further support vulnerable customers with their energy bills through the Warm Home Discount Scheme ("WHD"). Now in its twelfth year, the WHD is the UK Government's main policy for tackling fuel poverty. The scheme is delivered by energy suppliers, principally to qualifying customers, by providing rebates on electricity accounts to help when bills may be higher over the winter period. During scheme year eleven, which operated from 1 April 2021 to 31 March 2022, we spent £28.2 million providing assistance to 201,782 customers by applying a rebate of £140 to their electricity account.

In addition, £3.6 million of funding was awarded to eight third-party organisations to deliver industry initiative projects to provide a range of assistance to domestic customers. Our partners delivered energy efficiency advice, energy efficient white goods, and measures to improve the energy efficiency of the property where they lived. Other projects focused on further financial support providing fuel debt assistance and benefit entitlement checks.

Energy efficiency

The delivery of energy efficiency measures continues to be an important responsibility of our business, and 2022 was the ninth year of delivery of the UK Government's ECO scheme. The ECO scheme is fundamental to improving the fabric of British homes in our pursuit of achieving net zero and focuses on reducing heating costs for the most vulnerable customers and improving the energy efficiency of properties. We successfully delivered two of our sub-obligations for the ECO3 programme in early Q4 2021 and the delivery of our overall obligation was completed in December 2021, three months ahead of the legislative deadline. We continued with our ECO3 programme in 2022 with surplus delivery being carried over to ECO4. This ensured that the households could receive the benefit of the measures as early as practicable and maintained activity for our supply chain partners. In July 2022 the ECO4 legislation came into effect and the obligation will run until March 2026. The focus of ECO4 is the most vulnerable households in the least efficient homes (Energy Performance Certificates ("EPC") Bands E, F and G) and targets a whole house improvement project based on a fabric-first approach. This will see a drop in the number of properties treated, however, the majority of those treated will be improved by a minimum of two EPC bands with multiple measures delivered to each home. Our supply chain commenced delivery of ECO4 measures in August 2022 but delivery is cautious while the supply chain and obligated suppliers adjust to the new requirements of the obligation.

In December 2022, the UK Government launched and closed a consultation on a new government-funded programme, ECO+. This new £1 billion three year programme will look to deliver loft and cavity wall insulation to hundreds of thousands of the least energy efficient homes in the lower Council Tax bands, as well as targeting the most vulnerable homes across the country. Ofgem have not yet confirmed their timescales for consultation or publication of scheme guidance, however we expect the scheme to be launched in the first half of 2023. We will look to commence delivery of this programme as early as practicable to deliver support to homes as soon as possible.

"Being collaborative"

GOVERNMENT AND REGULATORS

Governments and regulators play a central role in shaping the energy sector. We engage with them directly and through trade associations, responding to issues of concern and providing expertise to support policy development. Through this engagement, we aim to contribute to the delivery of a UK energy system that functions in the interests of customers now, and in the future, including achievement of the UK and Scottish Governments' net zero decarbonisation targets.

Following our role last year as a principal sponsor supporting the UK Government in delivering the United Nations ("UN") Climate Change Conference of Parties ("COP26") in Glasgow, we have continued to highlight priorities for decarbonising the energy sector and achieving a just transition. (Refer to the 'Our role' section of the Strategic Report for further details). We have also continued our engagement with the UK Government, Ofgem and other stakeholders on the RIIO-ED2 price control, highlighting the need for appropriate levels of ambition towards achieving net zero and appropriate incentive mechanisms for network investment. On 30 November 2022, Ofgem published its Final Determination on our business plan for the RIIO-ED2 price control, approving £3 billion worth of spending to help us ready the UK for an electric future. (Refer to 'Our purpose', 'Energy Networks operating review' and 'Energy Networks outlook for 2023 and beyond' sections of the Strategic Report for further details.)

We have also worked closely with the UK Government and Ofgem to respond to the unprecedented increases in wholesale energy costs following the war in Ukraine, making the case for additional government support for domestic energy bills over winter 2022-23, notably the EBSS and EPG for domestic customers, and the EBRS for non-domestic customers. Simultaneously, we encouraged longer-term reforms (including changes made by Ofgem to the retail price cap) to ensure the sustainability of the supply sector. (Refer to 'Energy Retail operating review' and 'Energy Retail outlook for 2023 and beyond' sections of the Strategic Report for further details.) We also engaged with the UK Government on the EGL expected to apply from 1 January 2023 (refer to 'Renewables operating review' section of the Strategic Report for further information) and we continued to work with the UK Government on its policies for future support for renewables and new technologies such as green hydrogen, and wider reforms to wholesale markets.

ENGAGING WITH STAKEHOLDERS *continued*

Further information in relation to engagement with government and regulators is set out in the ScottishPower Divisions sections of the Strategic Report.

"Being responsible"

SUPPLIERS AND CONTRACTORS

As part of our mission for a better future, quicker, we are always looking for new suppliers and contractors, and for ways to improve our working relationships with our existing suppliers and contractors. We have a broad and diverse supply chain with around 3,000 suppliers, and during 2022, we awarded contracts with a cumulative value of around £2 billion. Our suppliers have a key role to play in the delivery of our projects and services that we are undertaking to provide a low-carbon future for the UK. We aim to develop and maintain strong relationships across our supply base with a focus on health and safety, quality, cost and sustainability. We expect our suppliers to operate to a high standard including working in an ethical and sustainable manner, and we have a range of policies that all suppliers must adhere to, including the ScottishPower Code of Ethics.

In 2022, we continued to increase our focus on the Environmental, Social and Governance ("ESG") credentials of our main suppliers using our supplier risk management system, Go Supply, which was introduced in 2021. This system has provided significant additional insight into ESG factors of our supply chain. We have used this information to monitor and report to the board of directors of SPL ("SPL Board") on the ESG credentials of our supply base, and to work closely with those suppliers that we have identified as having weaker ESG traits to support their development through improvement plans and guidance. During 2022, we were able to increase the number of our main suppliers that have a strong ESG scoring by 35% and we are pleased that 88% of our main suppliers are considered sustainable.

More broadly, engaging proactively with our supply chain is key in ensuring positive outcomes for both us and our suppliers, and we seek to engage specifically with suppliers through a variety of methods. For example, our Compliance Division and Procurement team worked together to contact a small sample population of suppliers who showed low ESG scores in relation to their compliance systems, for a variety of reasons. The initiative was designed to see if we could support those suppliers in improving those scores. We were pleased with the overall positive response. We continue to participate in business update sessions focussed on supply chain and virtual trade events. We will be planning our Supplier Awards for 2023, which recognise excellence in the supply chain along with giving a wide range of suppliers the opportunity to interact with both the Procurement team and other ScottishPower employees.

Engagement with our supply chain is always a critical activity for us but continues to become even more important as we adapt to the geopolitical and macroeconomic challenges (refer to the 'Group principal risks and uncertainties' section for further details), in addition to the post-pandemic recovery and Brexit transition, which have also impacted our supply chain. We are experiencing cost pressures due to high global commodity prices along with increasing freight and labour costs (refer to the 'Group principal risks and uncertainties' section for further details). We are facing longer lead times for some equipment and several of our suppliers have also been impacted by labour shortages. We have looked to support our supply chain during these challenging times by working collaboratively on forecasting our requirements and we have also established customs brokerage services.

COMMUNITY AND ENVIRONMENT

Refer to 'Sustainability' section of the Strategic Report for further details.

INNOVATION

It is crucial that we continue to innovate and drive forward towards our decarbonised smart energy future. By championing innovative technologies, bringing down the costs of decarbonisation and ensuring that no communities are left behind on the road to net zero, we continue to lead by example in making sure clean, affordable energy is available to all.

The second year of the five-year collaboration agreement with The Halo Kilmarnock Limited ("the Halo Project") has seen further progress in 2022. A first-of-a-kind Start-Up Business Challenge will be hosted in 2023 at the Halo Innovation Centre, allowing new and emerging businesses to showcase their talent and technology to the country, ensuring Scotland remains at the forefront of the low-carbon economy. Planning consent has been awarded for 138 properties, which will enjoy the benefit of low-carbon heating provided by heat pumps, optimised by smart controls. Corporate innovation collaborated with the Halo Project team to secure funding from the Scottish Government's Low Carbon Infrastructure Transition Fund to support delivery of the heating system for the properties.

We continue to work with the University of Strathclyde and Scottish and Southern Energy plc through the Technology and Innovation Centre's 'Scottish Low Carbon Power and Energy Partnership'. In the nine years since its inception, the programme has given us the opportunity to engage directly with academic experts and industry counterparts, to conduct valuable research and development in areas including the operation and maintenance of wind turbines, digital electricity networks and enhanced data analytics for optimised energy trading. New areas of research in 2022 have included locational marginal pricing, which, if implemented industry-wide, could potentially save consumers £30 billion, and cable route optimisation for offshore wind projects, which can deliver significant efficiencies and savings in the delivery of our ambitious offshore wind portfolio.

ENGAGING WITH STAKEHOLDERS *continued*

Energy Networks

The Strategic Innovation Fund was launched in 2021 by Ofgem and UK Research and Innovation to find and fund ambitious, innovative projects with the potential to accelerate the transition to net zero across the electricity and gas sectors. Energy Networks is working with numerous third parties to realise projects that help tackle some of the UK's biggest and most complex challenges in the push towards the UK achieving its net zero emissions targets. These are categorised in the following areas:

- Whole System: Fast Flex and Asset Reuse and Recovery Collaboration
- Data and Digitalisation: Digi-GIFT, Predict4Resilience and EnTWINe
- Heat: Flexible Heat and Heat Balance
- Net Zero Transport: A Holistic Hydrogen Approach to Heavy Duty Transport and Resilient and Flexible Railway Multi-Energy Hub Networks for Integrated Green Mobility

This exciting and ambitious portfolio of innovation projects will help Energy Networks deliver a resilient, flexible and agile electricity network that facilitates the transition to low-carbon technology for the country. You can read more about these projects by visiting www.spenergynetworks.co.uk/ 'Investment & Innovation'/ 'Innovation'/ 'Our Innovation Projects'/ 'Ofgem & UKRI Strategic Innovation Competition Fund'.

Renewables

Whitelee battery storage

Renewables aims to install over 0.9 GW of energy storage technology by 2030. As we install more renewable generation on the network, we need to ensure that we can keep the electricity grid stable and secure during periods where the energy produced by renewable sources does not match the demand. Battery energy storage systems ("BESS") allow renewable electricity to be stored and delivered to the network in response to system needs. This will build on our previous grid stability innovation work with our world first black start demonstration at Dersalloch Windfarm where we are using cutting edge grid forming technology. Black start is the name given to the procedure used to restore power in the event of a total or partial shutdown of the electricity transmission system.

The Whitelee BESS became operational in 2022 and is co-located on our Whitelee Windfarm. This ensures that more electricity generated by the wind farm is used and provides stability and security to the local electricity network without installing a lot of new infrastructure. We also have an operational BESS on our Barnesmore Windfarm and further battery storage is planned to be installed at strategic locations across the UK.

Pile gripper trial at East Anglia One offshore wind farm ("EA1")

This project is looking for efficiencies in the installation process of offshore wind farms. Jackets are a type of foundation used to secure offshore wind turbines to the seabed. Pile grouting is the process of making a structural connection between a jacket and the piles that have been driven or drilled into the seabed. During the grout curing process the movement of the jacket needs to be minimised and this is typically achieved with 'pile grippers'. Most pile gripper systems are based on legacy oil and gas technology and do not provide a cost-effective solution for the offshore wind market.

A test project was developed by the Renewables offshore team to verify the performance of a foundation stability tool using a wind turbine on EA1. This has the potential to reduce installation time and reduce fabrication design and manufacturing costs. Following the initial trial of this system, testing will continue at further sites to allow this solution to become fully commercially viable.

Energy Retail and Wholesale

Energy Retail continue to address the challenges of finding a sustainable and affordable solution for domestic heat. Having already launched a nationwide installation service for air source heat pumps, solar panels, batteries and EV charging.

Energy Retail has been developing a concept for an industry-leading home energy management system to solve the problem of adoption of new smart home technologies, caused by their lack of control, insight and inter-operability. This solution will create a modular hub including a customer access device within the home which will provide real time home consumption data and optimise performance of smart devices. The trial of this solution will be undertaken in conjunction with external software and hardware providers. The outcome will provide customers with a product that helps them reduce their energy consumption as well as additional income opportunities through system balancing.

Energy Retail is exploring the potential of a brand-new customer-facing app to help customers reduce their consumption and make positive impacts on their carbon footprint, whilst also saving money.

ANTI-BRIBERY AND ANTI-CORRUPTION

Bribery is a widespread issue with significant negative impact. We aspire to a strong best practice anti-bribery and corruption framework that allows us to do business with confidence and minimises the risk of bribery or corruption in our operations.

Our anti-bribery and corruption framework is based on a solid governance structure that creates a senior-level focus on managing compliance risks. The SPL Board has ultimate responsibility in this area and has designated the independent SPL Audit and Compliance Committee ("SP ACC") as having primary responsibility for overseeing compliance activity and reporting to the SPL Board on its effectiveness. Fully independent Compliance and Internal Audit Divisions are in place, reporting to the SP ACC . The Compliance Division's remit is established through a set of internal regulations, which place duties on it to act independently and to report material issues to the SP ACC, along with the Iberdrola Group Compliance Unit.

Ethics is at the heart of our business model and is embedded in our corporate governance structure and in our policies and procedures for managing our suppliers. The SPL Board has fully adopted the Code of Ethics, which establishes the expected behaviours for ScottishPower employees, suppliers and representatives, and sets a zero-tolerance approach to non-compliance. The SPL Board has also approved a ScottishPower-specific Code of Conduct to support and supplement the Code of Ethics. This Code of Conduct summarises the expectations on our employees in terms of behaviours, how they must conduct themselves, and encourages and supports ethical decision-making.

We maintain a strong Anti-Bribery and Corruption Policy. This policy framework is supported by the Compliance and Ethics Manual which, together, ensure that employees understand their obligations, have the appropriate means to comply with the policy and create a clear route for action in case of a breach.

ENGAGING WITH STAKEHOLDERS *continued*

The Compliance Division manages an annual risk assessment process which includes an assessment of fraud, bribery and corruption risks across the Group and identifies any required actions or mitigation to address those risks. Compliance measures are in place to support employees in their roles, based on risk. This includes training and awareness activities, which are important to support ongoing employee awareness of their obligations. All employees are asked to undertake our overarching Code of Ethics training on a regular basis, which includes education on anti-bribery and corruption, and targeted coaching is provided for those functions and roles which are identified as needing greater focus or guidance.

Anti-bribery and corruption controls are built in at all stages across the supplier management journey, from engagement and selection to contract award, and ongoing monitoring and improvement. Our suppliers are subject to ongoing compliance risk screening. We utilise a Dow Jones risk screening tool to assess compliance risks at key points across the supplier life-cycle, starting from the point of initial registration in the system, and daily for the existing supplier population. New and identified risks are assessed and appropriate action taken to mitigate the risk for that supplier. Information on supplier compliance risk is held directly in the purchasing and payment systems, allowing appropriate decision-making at each critical process step in the supplier relationship. This includes an active role for the Compliance Division in reviewing and approving payments to third parties for compliance risks.

We maintain a 'speaking out' service, with several routes for employees, suppliers, stakeholders, or the public to raise concerns confidentially or anonymously. We have a clear policy of non-retaliation for any person who makes a report through the speaking out service in good faith. Our compliance programme retained Compliance Leadership Verification status in 2022, as assessed by independent firm Ethisphere. We have also obtained ISO37001 accreditation for our anti-bribery and corruption programme.

HUMAN RIGHTS

Respect for human rights is an intrinsic element of our Governance and Sustainability System and forms part of our vision and values. We maintain a clear hierarchy of policies that are designed to ensure that ethical, sustainable values and fair labour practices are at the heart of our business operations, which includes the Code of Ethics, the Iberdrola Policy in Respect of Human Rights, and the Purchasing Policy.

The term 'modern slavery' covers both slavery and human trafficking. We are committed to human and labour rights and to eliminating modern slavery that could in any way be connected to our business. In accordance with the Modern Slavery Act 2015, we have produced our own Modern Slavery Statement, which is subject to annual approval by the SPL Board. This statement is published at www.scottishpower.com / 'Sustainability'/ 'Sustainable business'/ 'ScottishPower's Modern Slavery Statement'.

In 2022, we renewed our membership of the Slave Free Alliance, a not-for profit organisation working in collaboration with businesses to enhance and support their wider framework around ethical trade, sustainability, compliance, corporate social responsibility, and human rights. This membership provides a valuable opportunity to educate and inform ourselves on how to address potential issues of modern slavery in our supply chain. Through this membership, we have also been able to be involved in the Utilities Working Group, which is a collaborative forum between utilities and the Slave Free Alliance, to find a common solution to tackling modern slavery within utility businesses.

For all individuals recruited by us, we check their eligibility to work in the UK (including passport verification) and conduct pre-employment background checks, which can help to identify concerns or potential forced labour issues.

All third-party suppliers are subject to screening for any potential human rights or modern slavery issues, both at the point of registration with us and during their contract. Specialist third-party due diligence will be used in some higher risk contracts when needed. Our suppliers are required to agree to terms requiring them to operate ethically in relation to the recruitment, management and compensation of employees, in compliance with the Code of Ethics, as well as relevant modern slavery legislation. Suppliers are required to ensure that any sub-contractors are also obliged to meet these obligations.

Our confidential 'speaking out' service includes an initial control, which requires every report to be assessed for potential human rights impacts before it can be recorded. From 2022, certain categories of claims are automatically considered to have a potential human rights issue and are being recorded as such. We also monitor suppliers for potential human rights issues as part of our third-party screening. In 2022, we recorded nine claims as having a potential human rights issue based on the root cause. However, we did not identify any claims or cases relating to material or significant human rights impacts that triggered precautionary measures.

ENGAGING WITH STAKEHOLDERS *continued*

HOW SCOTTISH POWER UK PLC PERFORMED

Financial highlights

- Revenue up 58% year-on-year
- Operating profit increased 16% year-on-year
- Capital investment in the UK energy market was £930.1 million in 2022

2022 Group operating performance

The table below provides key financial information relating to our performance during the year. Further detail is provided in the individual divisional sections of the Strategic Report.

Financial key performance indicators ("KPIs")	Revenue (Note (a)) 2022* £m	Revenue (Note (a)) 2021 £m	Operating Profit (Note (a)) 2022 £m	Operating Profit (Note (a)) 2021 £m	Capital Investment (Note (b)) 2022 £m	Capital Investment (Note (b)) 2021 £m
Scottish Power UK plc	**8,434.9**	5,349.7	**834.5**	720.4	**930.1**	999.0

* Revenue for 2022 includes £682 million from the sale of the EA1 transmission asset classified as inventory. Refer to accounting policy at 3M(f).

(a) The Group's revenue and operating profit as presented on the Consolidated income statement on page 68.

(b) Additions to Intangible assets (refer to Note 6 on page 88), additions to Property, plant and equipment and reassessment of decommissioning asset within Property, plant and equipment (refer to Note 7 on page 90). Refer to Notes 2A2.2 and 13 for further details.

Revenue has increased by £3,085 million to £8,435 million in 2022. This unprecedented increase is driven by the Energy Retail and Wholesale division where revenues have risen from the sale of gas and electricity reflecting higher procurement costs (primarily energy but also network costs). Also included in 2022 revenues is £682 million from the sale of the EA1 transmission asset, classified as inventory.

As noted above, high energy costs continued to influence results in 2022. Whilst revenue increased, negative impacts in Energy Retail and Wholesale persisted. These included: continued exposure to high energy costs due to variable renewable wind generation; inability to pass on energy costs due to deficiencies in the price cap mechanism; and higher balancing and Balancing Services Use of System charges (BSUoS) costs. However, it is expected that a significant proportion of Energy Retail and Wholesale losses incurred in 2022 will be recoverable in 2023 via changes to the price cap methodology.

Operating profit for 2022 was £835 million, an increase of £114 million. This increase is mainly from increased production and revenue prices in Renewables. Whilst Energy Network's profit improved and Energy Retail and Wholesale losses reduced, these impacts were more than offset by the adverse year on year impact of the 2021 £86 million pension liabilities revaluation referred to in Note 9F.

Capital investment

Our capital investment of £930 million in 2022 was largely in line with the prior year, reflecting an increase in investment in offshore wind and a decrease in decommissioning assets due to an increase in discount rates.

Statement of financial position

Net assets of the Group decreased by £1,907 million in the year to £7,067 million. This reflects the impact of the statutory profit of £487 million offset by adverse movements in the hedge reserve of £1,543 million principally as a result of the volatile commodity environment and dividends of £834 million to the parent and non-controlling interests.

Impact of energy market volatility

The unprecedented rise in energy costs in the latter part of 2021 continued through most of 2022. This commodity market volatility resulted in significant year-on-year movements in the Consolidated statement of financial position. The 2021 net derivative financial asset position decreased by £1,865 million resulting in a net liability of £1,062 million at 31 December 2022. This decrease reflects both the delivery of commodity derivative assets during 2022 and movements in the value of derivatives for future delivery.

Current trade and other receivables increased by £728 million in the year. This increase includes impacts from an increase in the value of collateral posted as a result of commodity price movements, an underlying increase in customer receivables as a result of higher Energy Retail and Wholesale revenues, and additional receivables recognised in respect of the UK Government assistance schemes implemented during 2022 (refer to Note 12). Current trade and other payables increased by £377 million in the year. This was primarily due to the value of customer credits increasing as a result of higher commodity costs flowing through to customer bills. The value of customer credits is expected to reduce in the first half of 2023 with seasonal demand peaks. A payable was recognised in the year in respect of the EBSS scheme, however this was offset by the reduction in collateral held due to commodity price movements (refer to Note 20).

Inventories

Inventories reduced by £313 million in the year, principally due to the sale of the EA1 transmission assets partially offset by the increase in other transmission assets. Refer to Notes 2A2.2 and 13 for further details.

Retirement benefit obligations

The Group's net pension surplus increased by £48 million, principally due to increases in UK corporate bond yields and a reduction in long-term inflation expectations which reduced both the defined benefit obligations by £1,801 million and fair value of scheme assets by £1,753 million due to the level of hedging in the asset portfolio. Refer to Note 9 for further details.

ENGAGING WITH STAKEHOLDERS *continued*

Liquidity and cash management

We operate and manage a centralised cash management model within the UK, with liquidity being managed at the Company level. Our liquidity position and short-term financing activities are integrated and aligned with Iberdrola's.

The Iberdrola Group's objective is to retain sufficient liquid resources and facilities to cover anticipated cash flow requirements for a period in excess of twelve months; currently liquidity in the Iberdrola Group is in excess of €22 billion, which can be utilised, if required, to fund our activities.

Net cash flows from operating activities decreased by £850.8 million to £1,262.5 million for the year, as detailed on page 70. This has been driven by changes in working capital discussed above. Net cash flows from investing activities have decreased due to a reduction in loans receivable from Iberdrola Group companies. Net cash flows from financing activities have increased due to increases in loans payable to Iberdrola Group companies.

As detailed in the table below, cash increased by £686.2 million to £869.1 million, including £38.0 million of restricted cash (2021 £34.0 million). The increase was primarily due to the sale of the EA1 transmission asset. Overall net debt increased by £836.2 million to £5,360.2 million principally due to increases in loans payable to Iberdrola Group companies.

Analysis of net debt	Notes	2022 £m	2021* £m
Cash and short-term deposits	(a)	869.1	182.9
Loans receivable from Iberdrola Group companies	(b)	1,224.8	1,177.5
Loans payable to Iberdrola Group companies	(c)	(5,011.3)	(3,492.5)
Loans payable to external counterparties	(c)	(1,866.8)	(1,840.0)
Current financial liabilities	(a)	(23.8)	(34.8)
Lease liabilities	(d)	(523.8)	(510.7)
Accrued interest	(e)	(75.5)	(50.3)
Interest receivable from Iberdrola Group companies	(b)	19.5	10.3
Cross currency swap	(f)	27.6	33.6
Net debt	(g)	**(5,360.2)**	(4,524.0)

* Net debt has been restated to include Interest receivable from Iberdrola Group companies. This is to ensure consistency following inclusion of accrued interest in 2021.

(a) As detailed on the Consolidated statement of financial position on pages 66 and 67.
(b) As detailed in Note 12 on page 115.
(c) As detailed in Note 19(b) on page 121.
(d) As detailed in Note 8A(c) on page 93.
(e) As detailed in Note 19(a) on page 120.
(f) As detailed in Note 11(c) on page 103.
(g) Net debt is included as a relevant measure as it is the principal measure used to assess credit rating metrics.

Capital and debt structure

The Company is funded by a combination of debt and equity; all equity is held by Scottish Power Limited. Our financing structure is determined by our position in the wider Iberdrola Group. As stated above, we can obtain funding via the liquidity resources maintained at the Iberdrola Group. The Company holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's Rating Services (BBB+) and Fitch Ratings (BBB+). There are no financial covenant obligations in relation to our external debt. Details of our financial risk management policy are set out in Note 11(e).

Dividend policy

The directors have had regard to the key principles of the Iberdrola, S.A. Shareholder Remuneration Policy, as noted by the Company, which include that shareholder remuneration must: (i) be sustainable; (ii) be compatible with the maintenance of financial strength; and (iii) take account of the financial profile of comparable companies. During 2022, interim dividends totalling £715 million were declared and paid (2021 £nil), reflecting the Group's share of the proceeds from the sale of the EA1 transmission asset (£415 million) and the Group's 2022 financial performance in the Networks and Renewables divisions (£300 million).

Investment and funding

The overall funding objective is to maintain a forecast debt position for the various Group entities at least in line with their current credit ratings. As indicated above, the ongoing support of the ultimate parent company for future funding and liquidity provides a central underpinning for the directors in their assessments of ongoing funding for the Company and Group.

Taxes and other government obligations

To help give an understanding of our contribution to UK taxes and other UK Government obligations, the table below highlights the key taxes and other obligations in the financial year, on an accruals and cash basis respectively.

		Consolidated income statement expense		Cash tax paid in the year	
Analysis of taxes and other government obligations	Notes	2022 £m	2021 £m	2022 £m	2021 £m
Social security costs	(a)	**35.8**	33.1	**35.5**	32.0
Taxes other than income taxes	(b)	**198.1**	231.8	**192.6**	236.8
UK Corporation Tax	(c)	**82.2**	46.8	**22.6**	93.4
		316.1	311.7	**250.7**	362.2

(a) Consolidated income statement expense detailed in Note 23(a) on page 124.
(b) Consolidated income statement expense detailed in Note 24 on page 124.
(c) As detailed in Note 28 on page 125.

SCOTTISHPOWER DIVISIONS
ENERGY NETWORKS

Introduction to Energy Networks division

Our Energy Networks division is responsible for three regulated electricity network businesses in the UK. These businesses are 'asset-owner companies', holding the regulated assets and the electricity transmission and distribution licences of the Group, and are regulated monopolies. They own and operate the network of cables and power lines transporting electricity to around 3.5 million connected customers in the Central Belt and South of Scotland, Cheshire, Merseyside, North Shropshire and North Wales.

One of the regulated businesses, SP Transmission plc ("SPT"), is a transmission network owner. The electricity transmission network consists of the high voltage electricity wires that transport electricity from power stations to distribution system entry points or, in certain cases, direct to end users' premises via a national network of high voltage assets.

The other two regulated businesses, SPD and SPM are Distribution Network Operators ("DNOs"). The electricity distribution networks are regional grids that transport electricity at a lower voltage from the national transmission grid and embedded generators, and connect to industrial, commercial and domestic users.

All three regulated businesses are natural monopolies and are governed by Ofgem via regulatory price controls. The primary objective of the regulation of the electricity networks is the protection of consumers' interests while ensuring that demand can be met and network companies are able to finance their activities. Price controls are the method by which the amount of allowed revenue is set for network companies over the period of the price control. Price control processes are designed to cover each company's efficient costs and allow them to earn a reasonable return, provided they act in an efficient manner, deliver value for customers, and meet Ofgem targets. Price controls are delivered on a regulatory year basis covering the period from April to March. Therefore, the majority of Energy Networks' performance and key deliverables are measured and reported on this basis.

Operating review

Transmission business

The publication of the ESO's Holistic Network Design ("HND") identified a need for strategic investments of more than £5 billion in Energy Networks' transmission projects in south and central Scotland by 2030. We continue to develop plans to deliver these significant investments which are key enablers to net zero targets.

In July 2022, Ofgem approved the Final Needs Case for the multi-billion-pound Eastern High Voltage Direct Current ("HVDC") link project. This project will provide a direct current link from Torness in East Lothian to Hawthorn Pit in County Durham. A multi-disciplinary project delivery team has been established to drive the project forward from design through to construction and operation. The project is currently funded via a pre-construction allowance from Ofgem with project allowance for construction expected to be confirmed in second half of 2023.

In April 2022, we moved into the second year of the five-year RIIO-T2 price control period. We are still on track to deliver our agreed outputs during the remainder of the period.

Distribution business

In April 2022, we moved into the final year of the eight-year RIIO-ED1 price control period. We are on track to deliver our agreed outputs during the remainder of the period and are performing on, or ahead of, targets in our approach to safety, reliability and availability, and customer service. This includes investment in incremental green recovery projects in the drive towards net zero.

Following extensive discussion with Ofgem, recovery of supplier of last resort payments to suppliers were included in distribution use of systems tariffs charged from April 2022, resulting in a broadly neutral cash and earnings profile for 2022.

On 30 November 2022 Ofgem published its Final Determination on our RIIO-ED2 final business plan, setting out its decision approving our business case for £3 billion of investment in our distribution grids between 2023 and 2028. Ofgem will now proceed to consult and decide on the licence modifications required to give effect to the Final Determination, ready for the RIIO-ED2 price control period commencing on 1 April 2023.

Our values in action

As a network operator serving communities across England, Wales and Scotland, we have a critical role to play in supporting regional and national decarbonisation ambitions. We are focused on providing a business in direct alignment with the priorities of our customers and stakeholders to tackle climate change, and deliver the infrastructure and services required to achieve net zero. Our journey to a net zero future is already underway. In the last regulatory year (April 2021 to March 2022), we have reduced our distribution business carbon footprint by nearly 33% (excluding losses) and our transmission business carbon footprint by nearly 26% (excluding losses). Both of these reductions exclude losses which is measured as the difference between network units distributed and network units caused by distribution losses in the transportation of electricity. Furthermore, we are supporting societal decarbonisation by enabling low-carbon technologies, such as EVs and heat pumps, to be connected to our network. Energy Networks is a major enabler on the UK journey to net zero and this is embedded in Ofgem's price control mechanisms including reductions in our carbon footprint through investment in low-loss transformers.

Storm Arwen in November 2021 was the worst storm in recent years, described as a 1-in-40 year event. However, our staff worked hard during the storm to restore 88% of customers who lost power within 24 hours and 96% of customers within 48 hours. Former UK Energy Minister Rt Hon Charles Hendry CBE also led a review of our operational response to Storm Arwen, with a particular focus on the rural communities worst affected. This has helped to inform the actions we will take to improve our future performance in extreme weather events. There are mechanisms for exceptional events within the price controls that mitigate financial risks to Energy Networks. Refer to 'Physical risks and opportunities' within the 'Environment' section of Strategic Report for further information on the impact of storms.

SCOTTISHPOWER DIVISIONS *continued*
ENERGY NETWORKS *continued*

2022 performance

Financial key performance indicators ("KPIs")	Revenue 2022 £m	Revenue 2021 £m	Operating profit 2022 £m	Operating profit 2021 £m	Capital investment 2022 £m	Capital investment 2021 £m
Energy Networks	**1,380.4**	1,276.3	**599.3**	572.2	**623.7**	607.6

Energy Networks' revenue is £104 million higher than the prior year. Allowable transmission revenues have decreased under RIIO-T2 by £9 million. Distribution revenues include £88 million in relation to Supplier of Last Resort ("SoLR") levies. There is an equal and opposite value within procurements. Underlying distribution revenues are £25 million higher than the prior year reflecting collection of an under-recovery from prior years, partly offset by a 3.8% (primarily domestic) drop in volumes, the impact of which will be recovered in future years.

Operating profit is £27 million higher than 2021 largely due to increased allowable revenue pricing, an £8 million gain from the sale of Manweb Services Limited, partly offset by lower demand. Refer to Appendix 1 for further information.

Energy Networks' capital investment increased by £16 million to £624 million in 2022, primarily due to higher distribution related spend. Higher levels of investment are expected to continue to facilitate UK net zero targets as we progress through RIIO-T2 and also into RIIO-ED2.

The three regulated businesses within Energy Networks are required to prepare regulatory financial performance reporting for years ending 31 March. Reporting of KPIs is aligned to the regulatory year end. Consequently, the latest available data for the last regulatory year for Energy Networks has been disclosed in the table below, with the exception of distributed energy which is reported for the years ending 31 December.

Non-financial key performance indicators ("KPIs")	Notes	**Actual 2022**	**Target 2022**	Actual 2021	Target 2021
Distributed energy (GWh)	(a)				
- SPD		**15,626**	**N/A**	16,215	N/A
- SPM		**13,109**	**N/A**	13,662	N/A
Annual reliability of supply	(b)				
- SPT		**99.99%**	**N/A**	99.99%	N/A
Customer interruptions	(c)				
- SPD		**37.2**	**50.0**	43.4	50.2
- SPM		**30.3**	**35.9**	30.5	36.1
Customer minutes lost	(d)				
- SPD		**27.1**	**40.5**	30.2	41.1
- SPM		**30.9**	**35.9**	28.8	36.8

(a) Gigawatt hours ("GWh").
(b) Annual reliability of supply is provided by the system operator, National Grid.
(c) Recorded per 100 customers.
(d) Average number of minutes our customers had their supply interrupted.

Outlook for 2023 and beyond

We will continue to progress development of the Eastern HVDC link project including the award of engineering, procurement and construction turnkey contracts for converter stations and cables. In addition, pre-construction planning for other direct current links as part of the HND suite of projects will also be progressed.

A key focus for 2023 will be the targeted delivery of regulatory outputs for the close out of RIIO-ED1 and next year of RIIO-T2.

We will continue to implement the delivery plan for the increased volume of activity in RIIO-ED2. This plan includes increased recruitment in key areas coupled with external contract placement.

RIIO-ED2 will be particularly significant for the decarbonisation of transport and domestic heating. The work outlined in our plan will kick-start the much needed growth in these low-carbon technologies with over 670,000 EVs, 370,000 domestic heat pumps, and an additional 5 GW of low-carbon electricity generation connected through the five-year investment period. Within the next ten years, we expect the number of EVs we supply on our two distribution networks to increase by over 1.5 million with EV charging potentially doubling the demand of a domestic property. Through various innovation projects that we have carried out, we have identified a key strategic role that we can play in the design and siting of cost-effective EV charging infrastructure. We will also play a key role in the decarbonisation of heat. Heating buildings is responsible for a fifth of the UK's greenhouse gas ("GHG") emissions and we have forecast up to 1.1 million heat pump installations by 2030 across our two distribution licence areas.

SCOTTISHPOWER DIVISIONS *continued*

RENEWABLES

Introduction to Renewables

Renewables is responsible for the origination, development, construction and operation of renewable generation plants, principally onshore and offshore wind, with a growing presence in technologies such as battery storage and solar.

In 2022, our project pipeline has continued to expand and includes: 5.9 GW of new potential onshore wind, solar and battery storage projects; 2.9 GW of offshore wind within the East Anglia zone; and seabed rights for three offshore wind projects in Scotland with a total capacity of 7 GW, including one fixed-bottom site and, in partnership with Shell, two floating sites. We continue to consider further opportunities to invest more widely in renewable generation and storage.

Our assets continued to perform well throughout 2022 with good availability. Production was positive year-on-year as a result of good wind conditions despite several categorised storms providing additional technical challenges and increased downtime. Our Operations and Maintenance team continue to develop their internal capabilities in order to increase operational efficiencies.

Operating review

Onshore renewables

During 2022, our onshore pipeline increased to 5.9 GW (which includes 1 GW of projects in planning) and we progressed plans to take final investment decisions on five onshore wind projects totalling 396 megawatts ("MW") and ten solar projects totalling 326 MW which secured CfDs in the UK Government's Allocation Round 4 process in July 2022. This followed the acquisition of a number of solar projects with a capacity of up to 571 MW. These sites are at an advanced stage of development, and following an estimated investment of more than £0.7 billion, we anticipate that they will come into operation between 2024 and 2025. Refer to Appendix 1 for further details.

Our installed capacity also increased as we completed construction and operational handover of the 10 MW solar project at Carland Cross Windfarm, the 50 MW BESS at Whitelee Windfarm, the 50 MW BESS at Gormans in County Meath and the 3 MW BESS at Barnesmore in Donegal town. The BESS projects will provide balancing services for the electricity networks in Great Britain ("GB") and Ireland. Following the successful integration of our first solar and BESS assets into our operational portfolio, work continues to ensure robust operational processes are implemented in order to successfully integrate the continued growth in capacity, including a number of onshore wind farms and solar sites which are scheduled to enter into construction during 2023.

During 2022, we successfully secured two contracts following the UK Capacity Market auctions, including Whitelee BESS. These contracts allow National Grid to manage security of supply and prevent future blackouts on the system.

In 2022, both the Blacklaw and Whitelee wind farms have been providing constraint management contracts under National Grid's Constraint Pathfinder Tender. Provision of this innovative service from wind generation allows National Grid to manage constraints on the system in a cost-effective manner.

Offshore wind

The 389 MW West of Duddon Sands project in the East Irish Sea is a 50/50 joint arrangement with Orsted West of Duddon Sands (UK) Limited. The project is in its second operational term, with Orsted Power (UK) Limited providing operations and maintenance services. The site continues to deliver availability in line with expectations.

The 714 MW EA1 project is a 60/40 jointly-owned arrangement between Renewables and Bilbao Offshore Holding Limited respectively. Availability has been as expected in 2022, however, lower winds over the summer period have resulted in lower production. Following the Ofgem-led process, the divestment of the site's transmission asset to Transmission Capital Partners was completed in December 2022 for a consideration of £692.6 million, with a Gross margin of £19.6 million.

We continue to develop a strong pipeline of offshore projects, including East Anglia Three ("EA3"), East Anglia One North ("EA1 North") and East Anglia Two ("EA2") which are being developed as the EA Hub (totalling 2.9 GW). The 1.4 GW EA3 project secured three CfDs in Allocation Round 4 in July 2022 which makes a major contribution toward the UK Government's ambition of 50 GW of offshore wind by 2030. Consents were granted for EA1 North and EA2 on 31 March 2022. However, the consents are subject to a judicial review.

Following our success in the ScotWind seabed leasing round, option agreements were signed with Crown Estate Scotland for three offshore projects with total capacity of 7 GW; two large-scale floating projects in partnership with Shell (3 GW MarramWind and 2 GW CampionWind) and one solo fixed-bottom project (2 GW MachairWind). Refer to Note 10 for details of the joint arrangements. Significant fees of £229.8 million associated with the options have been capitalised within the respective projects in Property, plant and equipment; MarramWind, MachairWind and CampionWind. Taken together, these projects treble our offshore wind pipeline to more than 10 GW. Permitting activities are underway on these projects, with preliminary offshore site investigations at MarramWind completed in August 2022, which will support the environmental assessment as part of the consenting processes. On all three projects, discussions are ongoing with National Grid and other relevant parties to agree the timing and nature of grid connections.

SCOTTISHPOWER DIVISIONS *continued*

2022 performance

Financial key performance indicators ("KPIs")	Revenue 2022* £m	Revenue 2021 £m	Operating profit 2022 £m	Operating profit 2021 £m	Capital investment** 2022 £m	Capital investment** 2021 £m
Renewables	**1,714.0**	863.4	**469.6**	343.2	**163.8**	201.8

* Revenue for 2022 includes £682 million from the sale of the EA1 transmission asset classified as inventory.
** Refer to Notes 2A2.2 and 13 for further details.

Renewables revenue increased by £851 million to £1,714 million in 2022. Included in this increase is £682 million related to the sale of the EA1 transmission asset, classified as inventory. Underlying revenues increased by £168 million. Wind output increased by 16% (£86 million), reflecting more productive weather conditions. In addition, revenue increased due to Renewables Obligation Certificates ("ROCs"), CfD annual indexation and higher energy prices. These price increases were reflected in sales, primarily to Energy Retail and Wholesale.

Operating profit increased by £126 million to £470 million in 2022 including a £20 million gain on sale of the EA1 transmission asset, classified as inventory. Higher revenues were partially offset by increased Balancing Services Use of System charges ("BSUoS"), higher operating and maintenance costs as well as an additional depreciation charge due to a change in the useful life of some onshore assets. Refer to Note 2A2.3 for further information.

Capital investment decreased by £38.0 million to £163.8 million, reflecting a reduction in decommissioning assets due to an increase in discount rates offset by investment in offshore wind and solar development sites.

Non-financial key performance indicators ("KPIs")

	Notes	2022	2021
Wind			
Output (GWh)	(a)	**7,824**	6,726
Installed capacity (MW)	(b)	**2,895**	2,895
Availability	(c)	**96%**	96%
Solar			
Output (GWh)	(a), (d)	**7**	–
Installed capacity (MW)	(b), (d)	**10**	10
Battery			
Installed capacity (MW)	(b), (e)	**104**	104

(a) Output is a measure of the electrical output generated in the year, which in turn drives the revenues of the business.
(b) Installed capacity represents the total number of MW installed within the sites. This includes all sites constructed irrespective of whether they are generating or not.
(c) Availability is a measure of how effective the business is at ensuring wind generating plant is available and ready to generate.
(d) Solar capacity and output in respect of Carland Cross, which commenced operations in January 2022.
(e) Installed capacity relates to Gormans BESS, Whitelee BESS and Barnesmore BESS.

Outlook for 2023 and beyond

During 2023, we continue to consider opportunities to co-locate technologies, including solar and BESS projects, at existing wind farms in addition to new sites. Our five onshore wind farms which secured CfDs in Allocation Round 4 are also scheduled to begin construction in 2023; Hagshaw Hill Repowering, Douglas West Extension and Cumberhead West (all located in South Lanarkshire), and Kilgallioch Extension and Arecleoch Extension located at existing wind farms in South Ayrshire. Our solar sites which secured CfDs are scheduled for construction between 2023 and 2025. We also have discussions ongoing with various corporate companies to facilitate a route to market for a number of other projects in our pipeline.

In 2022, we welcomed the UK Government's commitment to move to annual CfD auctions and we are preparing for Allocation Round 5 which is due to open in March 2023, including submission of supply chain plans for EA1 North and EA2.

Our key growth priority areas for 2023 include developing a strategy for the repowering of our existing onshore operational sites. In addition to engaging with landowners and local authority stakeholders, we are also targeting development sites in England with initial feasibility complete and under exclusivity by mid-year 2023 for progressing to full feasibility assessment.

We continue to engage with the UK Government on a number of priority issues which have implications for the investment of renewable energy projects including CfD Allocation Round 6, the ten-year review of the Capacity Market and the wide-ranging Review of Energy Market Arrangements ("REMA") which is considering longer-term market arrangements to support delivery of a decarbonised power system by 2035. We are also looking forward to the Department for Economy in Northern Ireland developing a new renewable energy support scheme as it seeks to meet its decarbonisation goals.

The Scottish Government published a revised Onshore Wind Policy Statement in December 2022 which sets out an ambition to deploy 20 GW of onshore wind by 2030, as well as plans to form a Strategic Leadership Group to develop an onshore wind sector deal. We are committed to working with the Scottish Government and other industry participants in implementing a sector deal to maximise onshore wind investment, supply chain growth, and skills and employment opportunities.

We also continue to engage with the Department for Energy Security and Net Zero ("DESNZ"), Ofgem and National Grid as part of the Offshore Transmission Network Review ("OTNR") and we expect to receive updated grid connection contracts from them for two of our offshore wind connections as part of our ScotWind project pipeline and the next stage of the ESO's HND. It is through the combined proposals of connection contracts and the HND that we will seek to drive efficiencies and economies for all of our offshore sites. 2023 will see the beginning of the detailed modification proposals that will deliver Ofgem's concept framework proposals for OTNR that will require significant development until a stable enduring regime has been established.

In the current geopolitical environment, security and stability of supply and system restoration have become increasingly important issues and we are working closely with equipment manufacturers to build upon the successes of our world first black start demonstrations at Dersalloch Windfarm. We are using cutting edge 'grid-forming' technology and virtual synchronous machines to regulate the frequency and voltage to keep the electricity system stable, balanced and recoverable during localised grid outages. Our intention is to replicate and develop this now proven technology at scale, which our established pipeline is in an excellent position to enable, providing an alternative to conventional fossil fuels to restore power in the event of a major disruption of the transmission system. Contracts for system restoration services will be tendered and managed by National Grid on a regional basis that will enable revenue opportunities for providers.

SCOTTISHPOWER DIVISIONS *continued*
RENEWABLES *continued*

Renewables continually assesses the investment required to meet the criteria of the contracts to determine value opportunities available.In November 2022, the UK Government announced the introduction of the EGL on a variety of forms of low-carbon generation, expected to apply from 1 January 2023 and run until 31 March 2028 (subject to receipt of royal assent). The EGL is expected to levy an additional 45% tax on receipts made above an average output price of £75 per MWh, indexed annually to the Consumer Price Index ("CPI"). The EGL will only apply to the Group's exceptional receipts exceeding £10 million in an accounting period and will allow for the deduction of a limited set of exceptional costs when calculating generators' liability. It is anticipated that 77% of the current generation portfolio will be in scope of the EGL, however, the cost will be dependent on the value of electricity sales.

ENERGY RETAIL AND WHOLESALE

Introduction to Energy Retail and Wholesale

Our Energy Retail business is responsible for the supply of electricity and gas to domestic and business customers throughout GB, including customer registration, billing and handling enquiries in respect of these services. Energy Retail is also responsible for the associated metering activity including the smart meter installation programme and managing our smart solutions and hydrogen activities. During 2022, an average of 4.8 million gas and electricity customers were supplied by Energy Retail. At 31 December 2022, Energy Retail supplied 4.7 million gas and electricity customers. In Energy Retail, we aim to deliver a top-class experience for our customers, one which is hassle free, making it easy for customers to contact us through a range of routes, and provides flexibility to meet all of our customer needs.

The energy sector is evolving, and as a responsible energy supplier we continue to innovate to ensure our service offering meets the needs of customers as market conditions and customer needs change. We aim to do this through:

- supporting the decarbonisation of the energy market through innovative offerings;
- providing additional support to our most vulnerable customers;
- taking a holistic approach to customer needs through good quality smart solutions; and
- linking our smart solutions with our competitive energy tariff offerings.

Our Energy Wholesale business continues to focus on managing the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables. Energy Wholesale is predominantly responsible for the purchase of external supplies of electricity and gas for onward sale to customers and the sale of electricity from internal and external renewable power purchase agreements to wholesale market participants in the UK. Energy Wholesale has contributed to the Group's navigation of the volatile energy markets through its trading strategies, in addition to ensuring the continued security of gas supply through optimal utilisation of its gas storage facility.

Operating review

The unprecedented increase in wholesale costs experienced since mid-2021 has continued to have a significant impact on the supply market landscape. A significant number of suppliers failed during 2021 leaving substantial levels of mutualisation and industry levy costs to be recovered from the remaining suppliers (and ultimately consumers) through the course of the current and future years. As a direct consequence of increased costs, there are very few products available on the market and as such a significant proportion of consumers across the industry have defaulted on to the standard variable tariff ("SVT") price cap. This resulted in Energy Retail purchasing energy at higher market costs which were not recovered through the equivalent price cap period. These unrecovered costs will be reclaimed through the price cap in 2023.

Government support schemes

On 8 September 2022, the UK Government announced a new EPG scheme for domestic customers. The scheme is an initial six-month intervention which the UK Government states will ensure that a typical household in GB has energy bills that equate to an annualised cost of £2,500, and a monthly average cost of £208 for the six months from 1 October 2022. This compares to Ofgem's price cap level which increased from £3,549 to £4,279 for a typical household effective 1 January 2023 had it not been for this intervention. The EPG provides support to domestic consumers from the UK Government, with suppliers being compensated for the cost of the EPG, and we have been working closely with the UK Government to implement this scheme as efficiently as possible. Customers on fixed-term tariffs are also covered by the scheme with the level of support depending on the price of their tariff compared to the average £2,500 level for variable tariffs. On 17 November 2022, in the Autumn Statement, the Chancellor announced that the EPG will continue from 1 April 2023 for a further year at an increased level of £3,000 for a typical household, although the 2023 Budget annoucement delayed this increase until 1 July 2023. The latest Ofgem price cap announced on 27 February 2023 reduced from £4,279 to £3,280 for a typical household from 1 April 2023, which is still higher than the level of EPG government support. At 31 December 2022, £513.6 million of revenue had been recognised in the Consolidated income statement in relation to the EPG (refer to Note 22(a)), and £461.1 million had been received from the UK Government with £52.5 million expected to be received in 2023. Refer to Notes 12 and 3M(d) which details information on the accounting policy.

The UK Government also introduced the EBSS which provides support to customers by giving a £400 credit to domestic electricity customers over a six-month period (October 2022 to March 2023; £66-£67 per month). This has resulted in Energy Retail providing £519.5 million in EBSS rebates to customers during Q4 2022. This includes an £8.8 million prepayment made in December 2022, which distributed timely support to vulnerable customers over the New Year holiday period. At 31 December 2022, there was an EBSS liability on the Consolidated statement of financial position of £174.1 million included within Note 20, and therefore a net EBSS liability of £165.3 million. This largely represents funds received from the UK Government that as at 31 December were yet to be transferred to customers. Refer to accounting policy at Note 3R.

However, even with these interventions, wholesale prices are contributing to energy bills well above historic levels presenting those most vulnerable households with real financial challenge. We consider it urgent that the UK Government continues to support those customers most in need, and we are therefore pleased with the extension to the EPG announced in the Autumn Statement and Budget. The UK Government has also announced more targeted support for subsets of households as the cost of living rises, including a £150 rebate for some Council Tax bands, and additional support for customers in receipt of some benefits, including those with low income, disabilities and pensioners. While further support has been announced, we continue to believe more government assistance is needed on an enduring basis to ease the burden on households who need it most. As set out in the 'Energy Retail and Wholesale outlook for 2023 and beyond' section of the Strategic Report, we will continue to engage with the UK Government and Ofgem through key consultations regarding market reform and the fair recovery of the costs incurred over this volatile period.

SCOTTISHPOWER DIVISIONS *continued*
ENERGY RETAIL AND WHOLESALE *continued*

Recognising the pressure on non-domestic customers, the UK Government introduced a support scheme for such customers, similar to the domestic EPG. Through the EBRS, which runs for a six-month period from 1 October 2022, the UK Government is providing a discount on energy prices for all non-domestic customers. This support applies to fixed contracts agreed on or after 1 December 2021, as well as deemed, variable and flexible tariffs, applying to energy usage from 1 October 2022 to 31 March 2023. At 31 December 2022, £77.9 million of revenue had been recognised in the Consolidated income statement in relation to EBRS (refer to Note 22(a)) and £17.2 million has been received from the UK Government. This leaves £60.7 million as a receivable from the UK Government at year end, as disclosed in Note 12 (Refer to accounting policy at Note 3M(d)). On 9 January 2023, the UK Government announced that the EBRS would be replaced by a new EBDS which will run from 1 April 2023 until 31 March 2024, but which will offer a lower level of support compared to the EBRS.

We recognise the negative impact the cost of living crisis is having on our customers, particularly over the recent winter period, which is why we have continued to engage with the UK Government offering solutions (such as EPG, EBSS and EBRS), backed by the industry, to support the UK economy, and so these interventions are a welcome support for our customers. Further information regarding the support we offer to customers is set out in the 'Energy Customers' section of the Strategic Report.

Energy Retail changes

In 2022, Energy Retail expanded its restructuring programme announced in 2021 to ensure that it can continue to operate sustainably in these unprecedented challenging market conditions, and in the future, with this programme delivering a transformation of the retail business from 2022 and beyond. This has resulted in a transitory headcount reduction, with a view to developing existing staff and conducting recruitment to support the restructuring in the coming years (Refer to Note 18).

In Q1 2022, a decision was made to exit the industrial and commercial ("I&C") supply market over a period through the introduction of a number of targeted actions to maximise the value of this segment. This decision was made largely due to the volatility experienced in this segment, particularly around balancing costs as a result of the unprecedented rise in market prices and mutualisation costs from failed suppliers, and the resultant risk on existing tight margins across this segment. All existing customers will continue to be serviced as normal until contracts naturally mature between now and 2025. This decision has therefore had no material impact on the 2022 financial results.

Ofgem activity

In response to the widespread failure of energy suppliers, Ofgem has tightened the rules governing market entry for new suppliers, and of the ongoing monitoring of existing suppliers, focused on operational capability and financial resilience. This has included regular financial stress testing alongside general reporting requirements, and an ongoing programme of market compliance reviews focused on supplier compliance of key operational processes.

As a result of its Market Compliance Review activity, Ofgem commenced compliance or enforcement activity with almost all suppliers even where only minor weaknesses were identified. Ofgem ranked Energy Retail as amongst the best performing energy suppliers in its direct debit and vulnerability, review categories, with no material weaknesses for direct debit, and only minor weaknesses for vulnerability. For customers in payment difficulty, Ofgem noted appropriate processes as being in place, but issued a Provisional Order in relation to our agent adherence to our policy, which was subsequently revoked in December 2022 due to Ofgem being satisfied that we have taken action to address the weakness.

Energy Retail debt

Despite the significant increase in revenues driven by the higher wholesale costs, measures have been taken to reduce the impact on our debt book. These measures include the aforementioned support schemes introduced by the UK Government (EBSS, EPG, EBRS and EBDS), which together offer significant protection to both domestic and non-domestic customers from the rising cost of energy bills. This in turn reduces the level of customer debt to be collected and mitigates much of the bad debt risk that may otherwise have been apparent from non-payment of bills. From an expected credit losses perspective, the key risk is the collection of cash from the customer, as the funds to be received from the UK Government are considered to carry significantly lower risk. Even with UK Government support, the underlying tariffs are still higher year-on-year for the average customer, and as such, the operational focus remains on prompt cash collection and the retention of customers on secure payment plans. Ofgem recently announced an industry-wide suspension of forced installation of prepayment meters as part of an ongoing review into industry practices. While it is unclear how long this suspension will last, there is a recognition that this will limit our ability to offer customers a good option to have more control over their energy costs, and may also have an adverse impact on future cash collection. The level of customer debt as a percentage of billing, is trending down from 2021 and 2020 levels. This is driven by actions we have taken to engage with customers who are able to pay but chose not to. Refer to the 'Energy Customers' section of the Strategic Report for further details on how we engage with and support customers. Refer to 'Group principal risks and uncertainties' section of the Strategic Report and Note 11(e)A3 for further details on recoverability of the debt book.

Smart solutions, smart metering and hydrogen

Our smart solutions operation is all about helping our customers decarbonise their lives and serving our customers at a time when they need us most. We have a range of products and emergency services that our customers can call on, such as a national service for central heating or boiler breakdown, a plumbing leak, or a kitchen appliance breakdown. We have long-term contracts with our strategic partners who provide these services on our behalf, and we continue to work together focusing on the value and service being delivered for our customers, closely monitoring and learning from our customers' feedback.

We offer a range of charging solutions for customers with EVs be it at home, in the workplace or public charging. The journey away from burning gas to heat our homes is being helped with our electric heating solutions, in particular air source heat pump design and installation. We also help customers and businesses generate their own green energy through our solar solutions, and with batteries the energy they generate can be stored for when it is needed.

Energy Retail continues to make significant efforts and investments to support its smart meter rollout which, in conjunction with our app, provides our customers with a useful way to monitor and manage energy consumption. Despite the benefit a smart meter can provide, in 2022, we see the industry behind its collective target.

Our Hydrogen department is focussed on producing green hydrogen. Only green hydrogen will support the UK's vision of achieving the net zero target, and, together with Renewables, we plan to deliver our ambitions at scale. We have signed twenty partnerships with businesses across the UK to produce green hydrogen and have been engaging with the UK Government to support the latest of our projects.

SCOTTISHPOWER DIVISIONS *continued*
ENERGY RETAIL AND WHOLESALE *continued*

Energy Wholesale

Energy Wholesale continues to purchase forward Energy Retail power and gas requirements and sell forward Renewables' power generation, to provide price certainty in an environment where commodity markets have continued to experience substantial price increases and price volatility. Considering the current commodity market status, the Wholesale business has had to optimise its credit and collateral positions with market counterparties.

The Wholesale business has also sought to optimise use of its gas storage facilities given gas price increases and volatility. The unprecedented rise in energy costs in the latter part of 2021 continued through most of 2022. This commodity market volatility resulted in significant year-on-year movements in the Consolidated statement of financial position. Refer to 'Statement of financial position' section of the Strategic Report for further details.

Our values in action

During 2022, governments and Ofgem continued to focus strongly on the need for suppliers to deliver a positive consumer experience for all customer groups, recognising the need for suppliers to identify the needs of their customers, especially those in vulnerable circumstances, with Ofgem issuing a number of market-wide reviews of supplier compliance. After the challenges facing consumers as a result of the COVID-19 pandemic, the impact of rising energy prices and broader cost of living challenges, 2022 has seen a significant focus on this. Energy Retail has taken action to ensure we can deliver for our customers in this challenging environment. This includes the actions we have taken to support customers directly, as well as supporting customers in accessing support from relevant third parties and influencing the UK Government to implement support interventions. Refer to the 'Energy customers' section of the Strategic Report for further details.

2022 performance

	Revenue		Operating loss		Capital investment	
Financial key performance indicators ("KPIs")	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Energy Retail and Wholesale	**6,586.2**	4,107.3	**(234.5)**	(278.8)	**123.1**	170.7

Energy Retail and Wholesale revenue increased by £2,479 million to £6,586 million in 2022. Retail domestic revenues increased by £1,657 million mainly as a result of tariff increases driven by higher energy costs, partly offset by lower volumes from milder weather. Business revenues have also increased due to the higher cost of energy.

Energy Retail and Wholesale operating losses improved by £44 million to an operating loss of £234 million. Whilst revenues increased, so too did procurements (mainly higher energy costs but also higher network costs). As a result, gross margins were £51 million lower year on year. The unprecedented rise in energy costs in the latter part of 2021 continued to influence results in 2022. Negative impacts included: continued exposure to high energy costs due to variable renewable wind generation; inability to pass on energy costs due to deficiencies in the price cap mechanism; and higher balancing and BSUoS costs. It is expected that a significant proportion of the losses incurred in 2022 will be recoverable in 2023 via changes to the price cap methodology. These changes include a move to a quarterly price cap update, and additional allowances for historic loss recovery. Operating costs and other taxes decreased by £82 million primarily as a result of lower ECO scheme activity. Bad debt costs decreased by £14 million.

Capital investment in Energy Retail and Wholesale decreased by £48 million mainly due to decreased contract acquisition costs. This reflects the downturn in supply market competition following the energy cost increase.

Non-financial key performance indicators ("KPIs")

	Notes	2022	2021
Volume supplied (GWh)	(a)	**38,199**	43,742
Customer service performance	(b)	**3rd**	4th
Smart meters in portfolio	(c)	**51.2%**	41.3%
Customers (thousands)	(d)		
– Electricity		**2,862**	2,757
– Gas		**1,934**	1,856
		4,796	4,613

(a) Decrease due to reduced customer demand resulting from high energy costs and economic crisis throughout 2022.
(b) Based on the Citizens Advice Domestic Energy Suppliers' Customer Service Report. Rankings reflect ScottishPower's position relative to the other 'Big Seven' energy companies. We have continued to invest in our customer service teams with a key focus on improving our timely management and resolution of complaints, coupled with an overall focus on service quality across all of our advisors.
(c) Percentage of relevant Energy Retail customer base with a smart meter.
(d) Customer numbers are based on the average number of Meter Point Administration Numbers for electricity customers and Meter Point Reference Numbers for gas customers during the year to 31 December.

Outlook for 2023 and beyond

During 2022, there continued to be a strong focus on the default tariff cap methodology and on the financial resilience of suppliers after the significant level of suppliers failing during the second half of 2021 and into 2022, with a number of consultations being issued by Ofgem which will likely lead to changes into 2023 and beyond.

The new quarterly price cap methodology introduced in August 2022 will continue into 2023 alongside the additional allowances introduced to recover supplier losses relating to historic 'unexpected SVT' and backwardation costs. Ofgem has issued consultations on the methodology in a number of areas, most notably proposals relating to the appropriateness of the current 1.9% earnings before interest and tax ("EBIT") margin allowance, seeking views on the inputs to the allowance including how it is implemented. Ofgem has also set out proposals to extend the temporary measures to protect suppliers against further impacts in the circumstances of increased switching due to falling wholesale prices via a Market Stabilisation Charge ("MSC") paid by the gaining supplier to the losing supplier, and a ban on acquisition-only tariffs ("BAT") to March 2024. Looking beyond this, Ofgem are also considering implementing the BAT on an enduring basis.

SCOTTISHPOWER DIVISIONS *continued*
ENERGY RETAIL AND WHOLESALE *continued*

Longer term, the future of the price cap will be influenced by the content of the Energy Bill published on 6 July 2022 by the UK Government, which proposed to enable extensions of the cap beyond 2023 without a replacement longstop, instead the relevant Secretary of State ("SoS") will be able to seek parliamentary approval for extensions of one or two years through secondary legislation. The July 2022 Energy Bill also proposed to introduce an ECO buyout mechanism to facilitate removing the small supplier threshold. The Energy Prices Act 2022 received royal assent on 25 October 2022 with provisions to enable the SoS to terminate the cap on notice and requiring Ofgem to take account of the impact on public spending (having regard to information or guidance provided by the SoS) when setting the price cap level. We continue to lobby and influence the UK Government and Ofgem regarding the need for suppliers to recover efficiently incurred costs and be able to finance their businesses in a sustainable manner, and the need to protect the most financially vulnerable consumers in a targeted manner via a social tariff.

Ofgem published financial resilience proposals in late 2022 which would require suppliers to protect Renewable Obligation payments from April 2023, prepare significant additional annual reporting requirements around financial and operational resilience, and require suppliers to hold sufficient capital by the end of March 2025. At this point, Ofgem is not requiring suppliers to protect customer credit balances and instead will rely on the proposed minimum capital and additional reporting requirements, but with additional powers to require ringfencing of credits where a supplier's reporting breaches particular financial and operational triggers.

We expect Ofgem to continue with its increased monitoring of supplier operational processes and capability into 2023 via its ongoing programme of market compliance reviews to ensure suppliers are compliant with all licence conditions, including revisiting market compliance reviews undertaken in 2022.

In the years ahead, our smart solutions department plan to make solutions more accessible and increase engagement through monitoring and optimisation services. Physical solutions such as EV charging, solar generation, battery storage and renewable heating will be more accessible as we innovate to reduce costs and offer financial solutions alongside partners.

As the cost of energy is in sharp focus for households and businesses, we will help customers engage with their energy consumption through services such as our energy insight app and new monitoring and optimisation services that will link in with low-carbon technologies and the grid. When the energy wholesale market conditions are right, we will offer supporting tariffs that will help customers shift their consumption to periods of lower carbon intensity and lower cost.

We have positioned ourselves as the leading voice in the development of a green hydrogen industry in the UK. On the back of significant customer interest in the region, we are developing a 20 MW facility at our existing Whitelee Windfarm, which is intended to produce green hydrogen in 2024, subject to planning consent. We have also made significant progress in the North of Scotland Hydrogen Project located in the Cromarty region, which has been developed to produce green hydrogen for the Highlands. The first phase of this project is a 29 MW electrolyser which has multiple industrial offtakes and is intended to produce hydrogen in 2025. Following the public consultations held in 2022, the Cromarty project shall be considered by the local planning authority through the first half of 2023 allowing the project to progress towards its target for the Commercial Operational Date ("COD") during 2025. These production facilities will be amongst the very first commercial scale green hydrogen sites in the UK and will support the growth of hydrogen economies across Scotland.

We aim to hold share of the UK Government's target of 10 GW of green hydrogen production by 2030. As such, 2023 will see us develop several large sites to create a portfolio of hydrogen opportunities.

Energy Wholesale will continue to contribute towards the management of new, flexible assets being commissioned by Renewables and delivery of greener energy for Energy Retail. Energy Wholesale continues to optimise the value of its gas storage facility and to manage the ongoing decommissioning and sale of the non-operational sites of former generation plants.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES

The delivery of our strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk, while delivering shareholder value and protecting our performance and reputation by prudently managing the risks inherent in the business. Risk management within the Iberdrola Group, and so the Group, is based on foresight, independence, commitment to the Group's business objectives, and the engagement of senior management and the SPL Board. To maintain this strategic direction, the Group develops and implements risk management policies and procedures, and promotes a robust control environment at all levels of the organisation.

During 2022, the governance structure was supported by risk policies approved by the board of directors of Iberdrola ("the Iberdrola Board") and adopted by the SPL Board. Our business risk assessment team and independent group risk management function supported the SPL Board in the execution of due diligence and risk management. In addition, the Group is represented at the Iberdrola Risk Management Committee to ensure that the business risks are adequately assessed, monitored, mitigated and managed. Further details of the Group's governance structure and risk management are provided in the directors report.

The principal risks and uncertainties of the Group, that may impact current and future operational and financial performance and the management of these risks are described below.

REGULATORY AND POLITICAL RISKS – IMPACTS THE GROUP	RESPONSE
Compliance with regulatory obligations especially in the context of sudden changes of policy, or interventions outside established regulatory frameworks.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets.
Specific areas:	
Price controls – impacts Energy Networks Failure to deliver the Energy Networks' transmission and distribution outputs agreed with Ofgem in their respective price controls under the RIIO framework.	Mitigating actions include formulating detailed investment, resource, outage, contingency plans supported by an extensive procurement strategy and having a funding strategy in place to support delivery. Good communication and co-ordination of activities across the business is integral to success, complemented by a comprehensive monitoring regime that provides early warning of potential issues.
CfD indexation – impacts Renewables CfD Strike Price is indexed by CPI annually. Limited protection from supply chain cost increases.	Engaging with UK Government on potential to update strike price indexation to reflect inflation indices more relevant for construction costs.
Structural market volatility – impacts Energy Retail and Wholesale Structural uncertainty resulting from unprecedented volatility in wholesale energy prices and regulatory market interventions.	Positive and constructive engagement with key industry stakeholders including both Ofgem and various government departments regarding the requirement for suppliers to recover all costs incurred for 2022, and the need to make fundamental changes to the market to ensure efficient suppliers can recover costs in the future. Engagement includes responding to consultations, and proactively lobbying key stakeholders providing evidence on our costs and preferred regulatory amendments.
SVT indexation – impacts Energy Retail and Wholesale As a consequence of unprecedented high wholesale energy prices and ongoing volatility, despite changes implemented by Ofgem to the price cap methodology and temporary measures to mitigate the impact of falling prices, there remains risks to suppliers recovering the real cost of supplying and servicing the customer, preventing Energy Retail and Wholesale achieving a reasonable profit margin. There also remains uncertainty over what other measures the UK Government may take to protect consumers and whether such measures will be funded through the price cap mechanism.	Engaging with the UK Government and Ofgem to advocate for a price cap that accurately reflects the cost of supplying energy to customers, and the need to extend Ofgem's temporary Market Stabilisation Charge and Ban on Acquisition-only Tariffs measures. Energy Wholesale ensures that the indexation is hedged appropriately as part of its trading strategy.
Smart meter programme – impacts Energy Retail and Wholesale The potential for non-compliance with the UK Government's mandate to complete the rollout of smart metering to Energy Retail customers in accordance with prescribed timescales.	Dedicated project team focused on ensuring adequate business processes and systems are developed. The team is responsible for ensuring the rollout capability is secured to enable deployment of meters.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

GLOBAL FINANCIAL MARKET VOLATILITY RISKS – IMPACTS THE GROUP	RESPONSE
Impacts arising from market and regulatory reactions to events including the Ukraine war. As well as positive or negative changes in the UK economy these could include: • increased volatility on the value of Sterling and foreign currencies; • movement in the market price of electricity and gas and associated impact on collateral requirements on trading positions; and • increased volatility and estimation uncertainty risks on factors affecting the pension schemes including asset values and key assumptions.	Positive and transparent engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained, and public backing is secured for the necessary investment in the UK energy system. Providing stakeholders with evidence of the risks of ad hoc intervention in markets. In addition to monitoring ongoing developments, the Group has specific procedures in place to manage these key market risks. Further details are as follows: • a treasury risk management policy (comprising foreign currency, liquidity and interest rate risk) is in place to hedge financial risks which is discussed further in Note 11; • the mitigation of energy market risk is discussed further in Note 11(e)B and consideration has been given to appropriate levels of collateral due to current market conditions (refer to Note 11(d)); and • the pension scheme valuation risk is discussed further in Note 9.
CLIMATE CHANGE RISKS – IMPACTS THE GROUP	**RESPONSE**
The risk that Iberdrola's and the Group's strategy, investments or operations have a significant impact on the environment and on national and international targets to tackle climate change, or that climate change has a significant impact on our assets. Refer to 'Sustainability' section of the Strategic Report for further details.	ScottishPower's and Iberdrola's commitment to tackle climate change is reflected in our strategy. Refer to the 'Sustainability' section of the Strategic Report and Iberdrola's latest Integrated Report and Sustainability Report for further details.
HEALTH AND SAFETY RISK – IMPACTS THE GROUP	**RESPONSE**
A major health and safety incident in the course of operations could impact staff, contractors, communities or the environment.	The Group has certified management systems in place to deliver activities as safely as possible. In addition, a ScottishPower Health and Safety function exists and provides specialist services and support for the businesses in relation to health and safety. A comprehensive framework of health and safety policy and procedures, alongside audit programmes, is established throughout the Group, which aims to ensure not only continuing legal compliance but also to drive towards best practice in all levels of health and safety operations. Further details are provided in the 'Employees' section of the Strategic Report.
RECRUITMENT AND RETENTION OF STAFF RISKS – IMPACTS THE GROUP	**RESPONSE**
Increased and appropriate resources with the correct capabilities are required to grow our businesses. In Energy Networks, the increased retiral rate and challenging RIIO-ED2 and RIIO-T2 programmes require substantial recruitment in the coming years. In Renewables, attracting resources is a challenge with the complexity of a competitive market with scarce skilled resource.	Maintain strategic work force planning and implementation for Energy Networks, with particular emphasis on future skills, key capabilities and resourcing for growth opportunities, as well as best use of trainee programmes. Renewables' Retention Project to identify short and medium-term solutions. This includes an Offshore Global Retention Plan. Identification of critical and high risk roles within Renewables. Increased size and skill set of our recruitment team and onboarded offshore agencies for niche hard-to-fill roles within Renewables.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

CYBER SECURITY RISKS – IMPACTS THE GROUP	RESPONSE
We operate within an environment where there is the presence of sophisticated and opportunistic cyber security threat actors motivated to identify and take advantage of flaws and weaknesses in our cyber security defences. ScottishPower, in alignment with UK Regulation, takes the protection of our Data and the provision of our essential services very seriously. We continue to invest significantly in our people, processes, and technologies to enhance our capabilities to prevent, detect and respond to security threats. The main risks are: • Risks related to operational technology used to manage the production, management and distribution of energy, or physical safety systems (fire protection, CCTV, alarm reception centres). • Risks related to information technology ("IT") that enables us to operate critical services. • Risks related to the confidentiality, integrity, and availability of our key information assets. • Other cyber security risks impacting reputation.	We continue to focus on our enterprise security risks through enhanced internal governance, complemented by the adoption of a three lines of defence model with clear roles and responsibilities established across the Group. This has involved the recent appointment of a ScottishPower Chief Information Security Officer as well as the creation of Business Information Security Officers. These risks are manged in accordance with the basic principles defined in internal cyber security rules promoting the safe handling of data, use of IT and communications systems, use of operational technology systems and assets, and other cyber assets, reinforcing detection, prevention, defence, and response capabilities against possible attacks. The Iberdrola Group currently has specific insurance against cyber risks, under the terms allowed by the insurance market, which is revised and updated periodically in view of the rapid evolution and wide variety of cyber risks.
SUPPLY CHAIN RISKS – IMPACTS THE GROUP	**RESPONSE**
Interruption due to post lockdown inabilities to restart efficient supply chains, made worse by the Ukraine war, higher costs due to commodity prices, increased risk of supplier failure due to the deterioration of industrialised economies and excess demand over supply.	Identifying potential shortages and gaps in the supply of products, equipment and labour. The supply chain is advised by the Procurement department in conjunction with advice from the Compliance, Legal and Risk departments. The upward pressure on costs due to the macroeconomic environment is managed, and strategies, such as hedging and expanding our supplier base, are developed and implemented. The risk is spread through supply chain engagement, especially with new suppliers in new business areas and technologies.
PROJECT DELIVERY RISK – IMPACTS ENERGY NETWORKS AND RENEWABLES	**RESPONSE**
Failure to deliver large and complex projects on time and within budget.	ScottishPower and Iberdrola have a strong track record in delivering large scale engineering projects with significant experience from developing numerous onshore and offshore wind farms and Energy Networks projects. Project delivery is supported by the use of established and experienced suppliers and advisors, along with robust financial management including appropriate foreign exchange hedging and funding strategy. Continue constructive engagement with Ofgem on plan deliverability and regulatory regime around HND projects.
REDUCED SECURITY OF SUPPLY RISKS – IMPACTS THE GROUP	**RESPONSE**
Reduced security of supply due to potential asset failures alongside decreased generation capacity. Reduced security of supply has the potential to disrupt many of our customers, in both our own licence areas and beyond.	Risk-based asset investment programme in place, business continuity and emergency planning well established including Electricity System Restoration Strategic spares policy in place. Continuing engagement with Ofgem on GB resilience.

GROUP PRINCIPAL RISKS AND UNCERTAINTIES *continued*

RISKS OF INTERRUPTIONS TO NET ZERO TIMESCALES – IMPACTS ENERGY NETWORKS	RESPONSE
Low-carbon technology uptake Network operators are key facilitators to governments' net zero ambitions and the failure of Energy Networks to respond to customers' changing requirements through the low-carbon transition (for example EVs, distributed generation and storage) could result in a failure to meet these targets.	Mitigating actions influencing developments at industry forums, undertaking scenario modelling of the impact of low-carbon technologies, considering technical and commercial innovation projects, engaging with key stakeholders and owning a clear Distribution System Operator ("DSO") vision.
Extension of competition in transmission The extension of competition in transmission could impact Energy Networks as the introduction of untested competition models in the transmission business will introduce delays to net zero.	Continued engagement with Ofgem and DESNZ to discuss their proposals for introducing competition delivery models in the transmission business.
COST OF LIVING CRISIS RISKS – IMPACTS ENERGY RETAIL AND WHOLESALE	**RESPONSE**
Increased focus on affordability due to the cost of living crisis creates a greater number of consumers at risk and a greater burden on suppliers to service and support customers. The future level of support offered by the UK Government which deliver benefits to customers struggling with their energy bills may be lower.	We continue to deliver on improvement actions in relation to vulnerability and affordability. Engagement continues with the UK Government, third parties and Ofgem, on the challenges facing suppliers in supporting customers during the ongoing cost of living crisis, and the need for more targeted consumer protection for our most vulnerable customers.
Increase in the level of overdue debt specifically in Energy Retail, driven by the impact of rising bills, high cost of living and deterioration in the economy, impacting on the level of debt write-off required.	There are measures in place across the Energy Retail business to manage the key drivers of overdue debt, assess and implement remedial and preventative action, and to establish key metrics to monitor progress in reducing debt levels. Refer to Note 11(e) for further details.
MARKET POSITION RISK – IMPACTS ENERGY RETAIL AND WHOLESALE	**RESPONSE**
Impact of competition on Energy Retail's market share and profitability.	Constantly managing our operating cost base to ensure that our profitability is protected and focusing on growth through organic and other acquisition opportunities.

NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

The table below demonstrates, by cross-reference, how the non-financial reporting regulations within UK company law have been met. A description of our business model can also be found on page 1.

NON-FINANCIAL TOPIC	OUR POLICIES, PRINCIPAL RISKS AND KPIs RELATING TO EACH TOPIC	PAGE REFERENCE
Environmental matters	• Environmental strategy and policies • Environmental risks • Environmental KPIs	Refer to pages 29 to 30 and 32 Refer to pages 33 to 35 and 38 to 39 Refer to pages 41 to 44
The Group's employees	• Employee strategy and policies • Employee-related risks • Employee KPIs	Refer to pages 5 to 8 Refer to page 25 Refer to pages 5 to 8
Social matters	• Community-focussed strategy and policies	Refer to pages 45 to 48
Human rights, anti-corruption and anti-bribery	• Human rights and anti-slavery policies • Compliance and whistleblowing policies	Refer to pages 12 to 13

SUSTAINABILITY

An energy model in harmony with nature and people

The Group's sustainable energy business model embeds respect for the environment, actions to combat climate change, and delivery of the UN's Sustainable Development Goals ("UN SDGs") at its heart. It is crucial that we address the three environmental crises (climate, biodiversity and raw materials) in a way that creates sustainable value. We must also respond decisively to social challenges, objectives and goals, including human rights, equality, diversity, and inclusion.

During 2022, we worked to develop a new Sustainable Development Strategy, based on the UN SDGs, to guide us in responding to the challenges and opportunities laid out above whilst delivering a just transition that reflects the needs of the customers and communities we serve. Guided by internal and external stakeholders, this strategy will be launched in Q2 of 2023. We contributed to the creation of a leading package of global ESG targets launched by Iberdrola in November 2022 and worked to operationalise these. The climate disclosures included in this document are not intended to be fully compliant with the Taskforce on Climate-related Financial Disclosures ("TCFD") requirements and recommendations. Full compliance is mandatory for SPL (as head of the ScottishPower Group) for the accounting period commencing 1 January 2023. TCFD disclosures in these Accounts will be provided on a voluntary basis.

We continue to actively collaborate and influence external partners, peers and stakeholders. We are members of the Corporate Leaders Group UK, the Aldersgate Group, the UN Global Compact, and in Scotland, we are supporters of the Climate Emergency Response Group. We continue to be a very active member of the Scottish Business Climate Collaboration, a group of leading corporate businesses with major footprints in Scotland working to help lead the fight against climate change and inspire action as a legacy of COP26. We also remain very active in the Sustainable Glasgow Green Economy Hub, chaired by the Chief Operating Officer of our Energy Networks division, and the Edinburgh Climate Commission, chaired until the end of 2022 by the ScottishPower Head of Climate Change and Sustainability.

The following sections lay out the progress we made on environmental and social impact during 2022, covering:

- Environment
  - Climate, including TCFD and Streamlined Energy and Carbon Reporting
  - Biodiversity
  - Circularity
- Social Impact

ENVIRONMENT

We are committed to reducing our environmental footprint and responding to the risks and opportunities of climate change by:

- reducing emissions to air, land and water and preventing environmental harm;
- identifying and managing climate risks and opportunities, and implementing adaptation measures where required;
- minimising energy consumption and use of natural and human-made resources;
- sourcing material resources responsibly, cutting waste and encouraging re-use and recycling; and
- protecting natural habitats and restoring biodiversity.

Climate

The TCFD was established by the Financial Stability Board in 2015 to develop a set of consistent, climate-related financial risk disclosures to be used by companies and certain other public-interest entities to provide meaningful information to their investors and other stakeholders on the climate-related risks and opportunities facing their organisation.

The four pillars of TCFD are: Governance; Risk management; Strategy; and Metrics and targets. Building on our introduction to TCFD in last year's Annual Report and Accounts which largely focused on governance and risk management, we have provided an update on our activities for each of the four pillars, applying the UK non-binding guidance issued in February 2022. Going forward we will look for ways to enhance future disclosures as our understanding develops, including our first mandatory disclosures in the 2023 Annual Report and Accounts.

ENVIRONMENT *continued*

This table outlines where our consideration of each TCFD recommendation can be found within the Strategic Report:

	RECOMMENDATION	PAGE REFERENCE
Governance	Description of our governance arrangements in relation to assessing and managing climate-related risks and opportunities.	Refer to pages 29 to 30
Risk management	Description of how we identify, assess, and manage climate-related risks and opportunities.	Refer to pages 31 to 32
	Description of how the processes for identifying, assessing, and managing climate-related risks are integrated into our overall risk management process.	Refer to pages 31 to 32
Strategy	Description of the principal climate-related risks and opportunities arising in connection with our operations and the time periods by reference to which those risks and opportunities are assessed.	Refer to pages 33 to 35
	Description of the actual and potential impacts of the principal climate-related risks and opportunities on our business model and strategy.	Refer to pages 33 to 35
	Analysis of the resilience of our business model and strategy, considering different climate-related scenarios.	Refer to pages 36 to 41
Metrics and targets	Description of the targets used by us to manage climate-related risks and to realise climate-related opportunities and of performance against those targets.	Refer to pages 41 to 42
	Description of the KPIs used to assess progress against targets used to manage climate-related risks and realise climate-related opportunities and of the calculations on which those KPIs are based.	Refer to pages 41 to 44

Governance

Climate change is integrated into many aspects of our corporate governance and is visible throughout ScottishPower. The corporate governance system applied by the Company is known as the ScottishPower Governance and Sustainability System ("SP GSS"), which is approved by the SPL Board. The SP GSS is expressly structured around ESG standards, as well as directly referencing the UN SDGs. The SP GSS comprises five chapters: By-laws, Purpose, Environment and climate action, Social commitment, and Corporate governance (the latter three chapters corresponding to ESG considerations). Refer to the 'Corporate governance system' section of the Directors' Report for further details on the SP GSS.

Each of the boards of the Heads of Business Sub-holding companies SPENH, SPERL and SPRH (as defined on page 1) approve their own Governance and Sustainability System ("Business GSS") for their division, Energy Networks, Renewables, and Energy Retail and Wholesale, respectively. Each Business GSS is directly modeled on the SP GSS, and principally adopts the core policies and documents of the latter as they relate to each division, subject to specific business requirements and in compliance with each business' corporate autonomy. For further information regarding these bodies, refer to the 'Administrative, management and supervisory bodies' subsection under the 'Corporate governance' section of the Directors' Report.

Policies for managing climate-related risks and opportunities

There are policies within the Purpose and Environment and climate action chapters adopted within the SP GSS that are used to assess and manage climate-related risks and opportunities. The General Sustainable Development Policy ("GSDP"), along with the Stakeholder Engagement Policy, constitute the general framework, guidelines, instructions and criteria against which all the other specialised (environmental, social, risk or corporate governance) policies are held. The GSDP underpins Iberdrola's strategy regarding sustainable development around the ESG criteria and objectives, and how its business activities will be carried out to attain sustainable business value especially in relation to UN SDGs 7 and 13 regarding the supply of accessible and clean energy and the fight against climate change, respectively.

The environment and climate action policies (Sustainable management, Environment, Climate action, Biodiversity), are aligned with the goals and the path established by the Paris Agreement and the UN 2030 Agenda for Sustainable Development. These policies constitute the Group's approach to environmental challenges such as climate change and biodiversity loss, while helping to identify and take advantage of the climate-related opportunities arising from the energy and ecological transition. For example, the Climate Action Policy establishes a framework for articulating our strategy and business model in a manner consistent with our commitment to the fight against climate change. To implement our commitment to climate action, the following are some of the principles applied in our business activities:

ENVIRONMENT *continued*

- Set and review short, medium and long-term emission mitigation targets in line with the Paris Agreement and subsequent updates deriving from climate change science.
- Integrate climate change into internal strategic planning and decision-making processes, as well as into the analysis, management and reporting of long-term risks, taking into account the recommendations of the TCFD and other leading organisations regarding climate governance and the reporting of climate risks and opportunities.
- Promote suppliers' awareness of climate change and encourage them to adopt practices consistent with those of the Group in this area, and particularly with regard to reducing their carbon footprint.
- Have an environmental management system, which allows for evaluating, analysing, managing and reducing environmental risks, as well as improving the management of resources and optimising investments and costs, and which incorporates all relevant climate variables.
- Encourage research and the development of methodologies in the evaluation and design of adaptation measures, and take appropriate measures to mitigate the impacts of climate change on the production of energy from renewable sources, integrating climate science into the setting of objectives and internal procedures.

ScottishPower Group Structure, the SPL Board and Committees

The board of directors of the Company ("SPUK Board") makes decisions and dispenses with matters in accordance with its own terms of reference and the Company's Articles of Association (both which are deemed to form part of the SP GSS as adopted by the Company). Refer to the 'Corporate governance' section of the Directors' Report for further details. As SPL is the principal sub-holding company of the Group, the SPL Board is accountable for the governance arrangements we have in place in relation to assessing and managing climate-related risks and opportunities. For example, it receives relevant updates from the ScottishPower CEO and the divisional CEOs, which include key climate issues of strategic significance (e.g. ScottishPower's Sustainable Development Strategy, our Science-Based Targets and TCFD). The SPL Board is also responsible for approving updates to the SP GSS (including the adoption of the latest iteration of the Climate action and Environmental Policies), approving environmental risk insurance on an annual basis, approving the SPL Annual Report and Accounts in which certain climate information is disclosed, and reviewing and approving the Group's non-financial information (such as progress towards reducing Scope 1, 2 and 3 GHG emissions). At each meeting, the SPL Board is presented with a Group procurement summary which includes suppliers' ESG compliance scores for the previous period's high-value contracts. Scoring is based on, among other things, compliance with environmental legislation including GHG management and climate risk management processes, providing the SPL Board insight into how effectively parts of our supply chain manage climate risk.

In 2022, the SPL Board adopted the following updates to the SP GSS:

- Adopt the latest version of the Iberdrola Sustainable Development Policy and the latest suite of ScottishPower risk policies.
- Amend the terms of reference of the SPL ACC to expressly monitor sustainable development activity.
- A new ScottishPower Internal Protocol for the Incorporation of ESG considerations into decision-making by the SPL Board and those charged with governance.

These updates, insofar as they directly relate to the Company, form part of the SP GSS as adopted and applied by the Company. Achievement of net zero is integrated within the decision-making process at all levels under Iberdrola's target to be net zero in Scopes 1, 2 and 3 before 2040. Directors of our parent group, Iberdrola, have assumed ultimate responsibility for the fight against climate change, approving, supervising and reporting on the climate action plan. ESG reporting including climate data is prepared and input by ScottishPower and submitted for Iberdrola Board approval on an annual basis.

SP ACC

The SP ACC is an independent internal committee of the SPL Board with no executive powers. Refer to the 'SP ACC' section of the Directors' report for further details. In respect of providing oversight to the SPL Board of climate-related risks and opportunities, some of its functions include:

- Supervise the sustainable development activities of the Group and, particularly, whether its environmental and social practices conform to the global strategy and policies of Iberdrola, and of the Group, and report on the same to the SPL Board.
- Ensure that the main environmental risks in accordance with the general monitoring and risk management policy, are identified, managed and adequately reported.
- Promote a strategy in which risk is a key factor to be taken into account in all decisions and at all levels within ScottishPower.

ScottishPower Sustainable Development and Reputation Committee

The ScottishPower Sustainable Development and Reputation ("SDR") Committee, chaired by the Head of Climate Change and Sustainability, is a non-executive, cross-business working group set up to promote compliance with sustainable policies and guidelines, in accordance with its own terms of reference. It is also responsible for overseeing the development and implementation of ScottishPower's Sustainable Development Strategy which contains the Group's GHG emissions reduction strategy. SDR Committee membership consists of representatives from across ScottishPower, including the Chief Compliance Officer, the Director of Internal Audit, the Director of the CEO's Office, as well as representatives from Energy Networks, Renewables and Energy Retail and Wholesale.

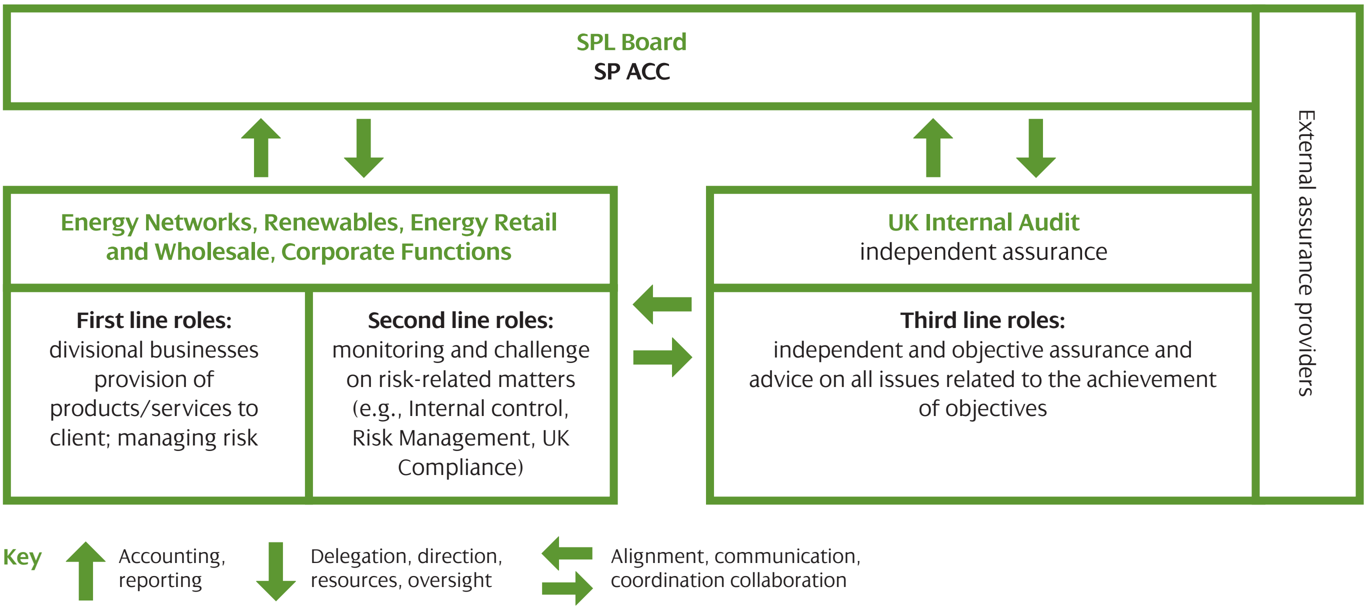
Strategic integration of ESG function

In 2019, Dr Sam Gardner was appointed to a newly created role as the Head of Climate Change and Sustainability. The role sits within the CEO Office and was created to help us develop and implement initiatives that will help us play a leading role in tackling the climate crisis and contributing to the UN SDGs. One purpose of the role is to provide a direct line of sight of ESG considerations to ensure environmental risks and opportunities (such as climate change) inform key strategic decisions. The Head of Climate Change and Sustainability meets with the CEO regularly throughout the year and attends the SPMC as required to discuss climate-related risks and opportunities. Monitoring and reporting of GHG reduction targets is undertaken by the Climate Change and Sustainability team and is verified annually through our sustainability data management workflow tool Sygris.

ENVIRONMENT *continued*

Risk management

The SPL Board and senior management is strongly committed to, and engaged in, the management of ScottishPower's risks including those related to climate. ScottishPower adopted Iberdrola's Three Lines Model as our internal control system (illustrated below), to ensure all significant risks are adequately identified, measured, managed, controlled, and regularly reported to all relevant internal and external stakeholders. Our Three Lines Model is based on an assurance system combined around three lines, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, increasing the efficiency of the processes for management and internal control of the entity's significant risks.



We review and approve acceptable levels of risk tolerance on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the Group level and at each of the divisions. Compliance with the approved risk policies, limits and indicators is monitored periodically throughout the year along with various exposures, significant risks and threats.

Integration of climate risks into our Enterprise Risk Management ("ERM") framework

As a Group principal risk, the identification, analysis and management of the risks and opportunities arising from climate change is integrated into our established and mature ERM framework. Risks are identified and addressed through a multi-departmental and multi-level process coordinated by our Risk Management department, involving significant collaboration between divisions and corporate functions.

The Key Risk Report ("KRR") is a repository for our risks representing our ERM framework to assist in achievement of both our short and long-term goals. Effective application of the KRR facilitates the ongoing informed decision-making required to meet our business objectives. Risk reporting is well embedded within the business and climate change risks are identified and assessed as part of the KRR process and are considered in line and with the same templates and standards as any other risk.

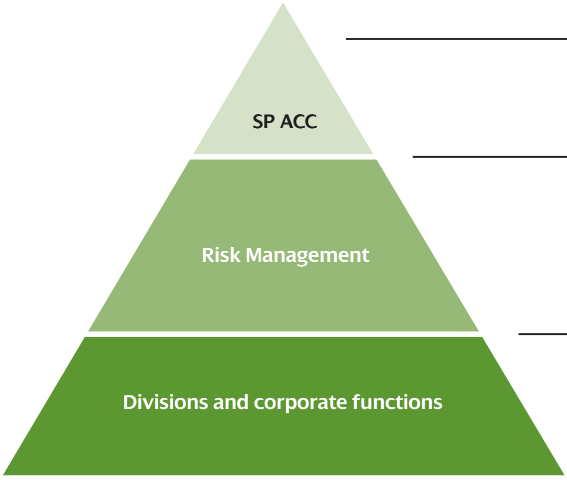
Each of the divisions and corporate functions compile their transition and physical climate change risks at least on a quarterly basis and submit to Risk Management who review the initial assessment of each risk and the mitigation strategy. To assess each climate-related risk, information related to the following is provided in each KRR template:

- Description – the specific climate change issue and how that causes the Group down-side risk along with the implications.
- Mitigation – the plan(s) to reduce the impact of this risk or remove it altogether.
- Owner – the owner accountable for managing the climate-related risk.
- Probability – the likelihood the risk crystalises.
- Short-term impact – an estimate of the financial impact in the next twelve months, if any.
- Long-term impact – an estimate of the financial impact beyond the next twelve months, if any.
- Reputation – consider if there is a direct reputational impact for the business.
- Evolution – whether the risk has increased, decreased or remains the same since the last quarter.
- Risk Factor – consider if the risk manifests itself as market, operational, business, credit or regulatory.
- Priority – climate-related risks are ranked high, medium or low in the context the specific division or corporate function.

The KRRs are then consolidated by Risk Management, who provide consistency checks, and report based on materiality twice a year at the SP ACC, and quarterly at Iberdrola Group Risk and Supervision Committee and SPMC.

ENVIRONMENT *continued*

Our KRR process is illustrated below:



- Given assurance main environmental risks are identified, managed and reported
- Reports to the SPL Board on the internal control and risk management systems

- Overall coordination
- Review assessment and mitigation strategy of risks
- Check consistency of submitted climate KRRs
- Consolidate and report based on materiality bi-annually to SP ACC and quarterly to the SPMC and Iberdrola Risk and Supervision Committee

- Identify climate risks and opportunities
- Assign risk owner
- Assess and prioritise each climate risk
- Agree mitigation strategy considering any existing controls

Strategy

This section outlines our overall strategy and approach to the management of climate-related risks and opportunities together with an indication of the principal transition and physical risks and opportunities. It then goes on to examine transition risks and opportunities and how different climate scenarios would impact us. There follows an examination of physical risks and opportunities and how physical risks could evolve over time. The section ends with a description of the mitigation, adaptation and resilience activities underway to manage transition and physical risks and opportunities.

Our strategy for effectively managing climate-related risks and opportunities is founded on a long history of proactive action. For the last several decades, we have been a disruptor and innovator in the UK energy market. Our actions including spearheading the widespread adoption of onshore and offshore wind generation, returning Scotland to a coal-free energy system with the closure of the Longannet and Cockenzie power stations and becoming the first major UK energy firm to completely drop fossil fuels generation in favour of renewables, have all enabled us to reduce climate risk and realise opportunities to create sustainable value. We are now also driving the accelerated adoption of low-carbon storage, green hydrogen and EV charging technologies, supported by an increasingly flexible and smart electricity network.

Being an early mover in these areas has created an element of business and physical risk but has also enabled us to realise significant business opportunities that otherwise would not have been open to us. As the impacts of climate change become ever more tangible, it is important that our strategy for risk and opportunity management continues to evolve in order that we can continue to maintain a strong and competitive business in the short, medium, and long-term.

Our approach to the management of climate-related risks and opportunities considers all of the relevant time horizons for our divisions. The policies within the SP GSS guide our actions within the time horizons related to the UN SDGs (2030), compliance with ESG requirements (which are diverse and continually evolving) and goals established by the Paris Agreement (2050). The strategies that we develop to operationalise the SP GSS therefore align to these time horizons as well as other technology or location-specific horizons (such as the Scottish 2045 net zero target or UK regulatory timelines). Given the key role that the energy industry must play in the low-carbon transition, and the resulting science-based 2040 net zero requirement for companies such as ours, our group-wide strategic vision lays out our long-term proposition to 2040, with milestones at 2025 (short-term) and 2030 (medium-term). Strategies and investment plans are set in line with these milestones, whilst also taking into account asset lives (many assets installed today will still be operational in 2040) and regulatory and planning timelines.

Our assessment and management of climate risk and opportunities considers risks over the short, medium, and long-term time horizons. Transition, physical and other climate risks are managed using this process and mitigating actions carried out as required. Transition and physical risks and opportunities are considered in the medium and long-term through a process of scenario analysis, with potential impacts indicated over the medium-term (2030) horizon for transition risks and opportunities, and over the medium to long-term (2030 to 2059) for physical risks.

Our analysis in the short, medium, and long-term indicate that our business is in a strong position to respond to the potential effects of, and realise the opportunities related to, climate change.

ENVIRONMENT *continued*

Principal risks and opportunities

Climate change represents business, systemic and global risks, and opportunities over a range of time horizons. These can be categorised into three broad groups:

TRANSITION	PHYSICAL	OTHER RISKS OR OPPORTUNITIES
Associated with the global decarbonisation process, such as the evolution of: • strategy; • legislation; • policy; • regulation; • markets and supply chains; • technology; • competition; • financial; • reputational developments; • demand; and • reporting requirements.	Stemming from possible material impacts on facilities and the supply chain as a result of the evolution of climate variables, such as: • heatwaves; • drought and increased dust; • rising sea levels and temperatures; • rising flooding levels and increased flooding re-occurrence; • changes in weather patterns and extreme weather events; and • invasive species.	These may arise as a result of physical and transition risks, including: • those relating to deterioration in the credit of counterparties (suppliers, banks, others); • social phenomena (humanitarian crises, impacts on crops and fishing, refugee crises, epidemics); • greater competition for financial resources; and • greater drive for efficiency and transparency.

Transition risks and opportunities

Our anticipation and management of transition risks and opportunities over the past decades has been central to cementing our position as a leader in renewable energy and the fight against climate change. The following table outlines the transition risks and opportunities identified as the most relevant to our products and markets, and the most likely to materialise, together with a description of our current approach and related strategic impacts. Relevant timeframes have been identified (short-term, medium-term and long-term), however, all of these high priority risks and opportunities have the potential to crystallise over all timeframes.

MARKET		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISK Change in the cost of raw materials, parts and emission rights, customer demand and supply chain uncertainty may impact our ability to deliver net zero through network development and renewable generation. **Relevant in short, medium, and long-term.**	• Expert unit in charge making forecasts and preparing long-term paths with consideration of decarbonisation plans. • Supply chain monitoring and engagement, particularly with new suppliers and technologies. • Upward pressure on costs due to the macroeconomic environment is proactively managed. • Engagement with key industry stakeholders such as Ofgem and governments. • Refer to 'Group principal risks and uncertainties' section of the Strategic Report for further details.	• Development and implementation of strategies for hedging and supplier base expansion.
OPPORTUNITY Economic decarbonisation requires an increase in the electrification of heat and transport through heat pumps and EVs primarily. **Relevant in short, medium, and long-term.**	• Strategic partnership with WWF to help accelerate the UK's transition to net zero, pursuing a programme of policy advocacy to champion low-carbon energy solutions and to call for ambitious climate action. • Establishment of smart solutions department to facilitate the uptake of low-carbon technologies.	• Designing and delivering an energy system to facilitate and encourage the growth of EVs and clean heating solutions. • Facilitating the decarbonisation of hard-to-electrify sectors such as heavy industry and transport, through the development and application of green hydrogen solutions.

ENVIRONMENT *continued*

REGULATORY		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISKS Changes to consenting or emissions legislation. Uncertainty as to the financing framework and aid for the development of renewable energies. **Relevant in short, medium, and long-term.**	• Risk associated with climate change is considered in typical analysis of regulatory risks and evaluated for each investment. • Engagement with all appropriate stakeholders to ensure that long-term regulatory stability and political consensus is maintained and public backing is secured for the necessary investment in the UK energy system. • Providing stakeholders with evidence of the risks of ad hoc intervention in markets. • Refer to 'Group principal risks and uncertainties' section of the Strategic Report for further details.	• Strong corporate stakeholder relations strategy.
OPPORTUNITY Economy-wide shift from fossil fuels to renewables. **Relevant in short, medium, and long-term.**	• Increase capital spending in the UK, with £6.7 billion to be spent between 2023 and 2025, including £3.3 billion on electricity network investment and nearly £3 billion on renewable generation projects.	• Investing in renewable energy generation, principally onshore and offshore wind, solar and battery storage, to address the climate emergency and reduce the cost of electricity generation.

FINANCIAL		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISK Increase in the cost of capital for investments in technologies or business models that are deemed to be unrelated in the fight against climate change. **Relevant in short, medium, and long-term.**	• ScottishPower's business model contributes to the decarbonisation of the economy. • We continually monitor the views of investors and work to ensure our business model remains aligned with best practice in sustainability.	• Strategy and business model aligned with the fight against climate change.
OPPORTUNITY Advantages in terms of attracting financing for companies with sustainable and resilient business models. **Relevant in short, medium, and long-term.**	• Early engagement with TCFD requirements.	• Sustainable development embedded in business strategies. • Strong focus on business adaptation and resilience.

ENVIRONMENT *continued*

TECHNOLOGICAL		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISK Uncertainty about technological development. Innovation and anticipation regarding the development and implementation of new technology. **Relevant in short, medium, and long-term.**	• Established renewables technology is mature and less exposed to cycles. • Technical and performance analysis. • Technological and prospective analysis. • Influencing developments at industry forums.	• Championing innovative technologies, bringing down the costs of decarbonisation and ensuring that no communities are left behind on the road to net zero.
OPPORTUNITY Increasing importance of networks (in terms of greater digitalisation, smart grids, system flexibility) under electrification scenarios – transition to DSO. **Relevant in short, medium, and long-term.**	• Undertaking scenario modelling of the impact of low-carbon technologies. • Considering technical and commercial innovation projects. • Engaging with key stakeholders and owning a clear DSO vision.	• Investing in networks to make them smarter and more resilient, and creating a platform for the UK's sustainable electric future.

REPUTATIONAL		
Risks and opportunities	**Approach and management**	**Strategic impact**
RISKS Change in the behaviour and preferences of stakeholders, with pressure on unsustainable companies (risk of lawsuits). Non-compliance with reporting requirements. **Relevant in short, medium, and long-term.**	• Engagement with all appropriate stakeholders. • Development and delivery of credible business decarbonisation. • Expert teams responsible for compliance with reporting requirements, underpinned by Three Lines model.	• Building a sustainable development strategy. • Science-based decarbonisation pathways. • Strong corporate stakeholder relations strategy.
OPPORTUNITIES Improved energy efficiency and associated benefits for consumers, and an improved relationship with them. Strengthened stakeholder relationships for companies acting on climate change. **Relevant in short, medium, and long-term.**	• Sharing information with our customers on the actions they can take to reduce their usage. • Delivering our ECO4 programme and preparing for ECO+. • Continue to engage with the UK Government on the effective and timely delivery of energy efficiency measures to achieve UK consumption reduction ambitions. • Engagement with all appropriate stakeholders.	• Supporting and guiding domestic and business customers through their journey to help them decarbonise and be more efficient in their energy consumption.

ENVIRONMENT *continued*

Transition scenario analysis

The resilience of our global group business model and strategy to transition risks, and our ability to realise opportunities, is assessed on an annual basis. In 2022, we have carried out a UK-specific analysis that uses a range of scenarios selected to be the most relevant for our business whilst being sufficiently varied to cover a range of relevant outcomes. Our choice of scenarios includes a business-as-usual scenario aligned to the UK's 2050 net zero target, a scenario that goes faster and a scenario which does not achieve net zero by 2050.

We have chosen to undertake this transition scenario analysis using the medium-term time horizon of 2030 and the analysis identifies both qualitative and quantitative potential impacts under each scenario at this timepoint.

The analysis has been carried out in four steps, which align with the relevant TCFD Technical Supplement:

- analysis and selection of reference climate scenarios;
- selection of the key scenario parameters to be used in the analysis of each transition scenario;
- identification of the most relevant operational indicators for each ScottishPower subholding; and
- analysis of the impact of the two alternative scenarios with respect to the base case presented in the 2023-2025 outlook.

When selecting relevant scenarios, we reviewed the International Energy Agency scenarios and the UK-specific National Grid Future Energy Scenarios ("FES"). We decided to use the FES as they provide a UK-specific view and because we use these in the development of our investment plans. We used the following scenarios, which take account of both Intergovernmental Panel on Climate Change ("IPCC") assessments and the Paris Agreement climate targets:

- **Consumer transformation** – This scenario is characterised by electrified heating, consumer behaviour change, energy efficiency and demand side flexibility and is aligned with the UK's 2050 net zero target. The ScottishPower outlook for 2023-2025 is based on this central scenario and it is therefore our baseline scenario.
- **Leading the way** – This scenario goes beyond consumer transformation and assumes the fastest credible decarbonisation, significant lifestyle change, and a mixture of hydrogen and electrification for heating. This scenario is also aligned with the UK's 2050 net zero target.
- **Falling short** – This scenario falls behind the other two scenarios and does not achieve the UK's 2050 net zero goal. It is characterised by the slowest credible decarbonisation, minimal behaviour changes, and decarbonisation in power and transport but not heat.

When assessing impacts related to its distribution business, our networks business used geographically granular Distribution Future Energy Scenarios (DFES), based on FES, which also took into account of UK Climate Change Committee Sixth Carbon Budget Scenarios and drew on extensive engagement with stakeholders including devolved governments in Scotland and Wales. The baseline planning scenario for the network distribution licences was therefore broadly consistent with the FES Consumer Transformation scenario but with regional adjustments due to geography and network characteristics.

We considered key parameters related to these scenarios:

- final electricity demand;
- installed renewable capacity across different technologies;
- renewable share of generation mix;
- total domestic electricity generation;
- annual natural gas demand for home heating;
- investment in networks; and
- installed gas capacity.

We then identified the operational indicators most sensitive to potential changes in the climate scenarios:

- **Energy Networks** – EV and heat pump uptake (millions), Generation (GW)
- **Renewables** – Installed renewable capacity (GW)
- **Energy Retail and Wholesale** – Electricity and gas demand (terawatt hour ("TWh"))

  The following tables lay out the potential impacts under the two alternative scenarios for each division in 2030. There is no impact analysis for consumer transformation as this is our base case and therefore would have no impact upon our metrics. Impacts are indicated in 2030 as a single point in time rather than cumulative or average over the period from 2023 to 2030 in order to facilitate comparability.

  The operational and financial impacts of climate identified by our scenario analysis are nominal, with the exception of Energy Networks, as explained further below. Under the falling short scenario, Energy Networks would experience low operational and financial downsides. Under the leading the way scenario, Energy Networks would see a medium operational upside and low financial upside.

- **Energy Networks** – Under the falling short scenario, a slower transition would mean delay to a number of high-cost major transmission projects coupled with reduced investment in low-carbon technologies, leading to a lower in-year earnings before interest, tax, depreciation, and amortisation ("EBITDA") in 2030. Under the leading the way scenario, there is limited additional need for high-cost transmission interventions beyond those already planned in the baseline scenario as the generation export requirements to the wider GB transmission system are broadly similar in both scenarios. The related transmission investment, which represents a significant proportion of Energy Networks' EBITDA, therefore remains similar to the baseline plan. The majority of increased expenditure is associated with the distribution networks to accommodate EVs and heat pumps.

ENVIRONMENT *continued*

- **Renewables** – While UK-wide the falling short and leading the way scenarios both indicate material changes in overall renewable generation capacity, the impact of these changes upon our Renewables division would be minimal in 2030, due to the scale and maturity of our projects and the timelines related to them. However, there would potentially be impacts beyond 2030 in terms of increases or decreases to our long-term renewables pipeline. Offshore projects can take up to a decade to plan and construct and so, barring any significant changes to planning policy, our pipeline to 2030 would remain stable under either scenario. Whilst onshore projects typically have shorter planning and construction timelines and, would therefore be able to respond more quickly to increased UK targets or policy changes, they represent a small proportion of our renewable capacity and expenditure, and therefore the impact of the scenarios would be minimal in terms of our overall portfolio and financial impact.
- **Energy Retail and Wholesale** – Both the falling short and leading the way scenarios indicate minimal impact for our Energy Retail and Wholesale division, assuming no significant change in customer numbers. Under the falling short scenario, more customers will continue to use gas as their source of primary heating, increasing the forecasted gas volumes and decreasing electricity volumes. Under the leading the way scenario, a faster transition will see more customers move to heat pumps, solar panels and other technologies, decreasing the use of natural gas but increasing electricity use for heat, and representing an opportunity in terms of a growing market for our smart solutions.

2030 impact

		Falling short scenario				Leading the way scenario			
Business	**Impact Type**	Not Significant	Low	Medium	High	Not Significant	Low	Medium	High
Energy Networks	Million/GW		▼					▲	
Renewables	GW	▬				▬			
Energy Retail and Wholesale	TWh	▬				▬			

EBITDA 2030 impact

		Falling short scenario				Leading the way scenario			
Business	**Impact Type**	Not Significant	£m < 100	£m 100-300	£m > 300	Not Significant	£m < 100	£m 100-300	£m > 300
Energy Networks	EBITDA 2030		▼				▲		
Renewables	EBITDA 2030	▬					▲		
Energy Retail and Wholesale	EBITDA 2030	▬				▬			

Key

▲ Positive impact

▬ No significant impact

▼ Negative impact

ENVIRONMENT *continued*

Physical risks and opportunities

ScottishPower monitors and manages physical risks using climate science and applies the learning to procedures, with a focus on planning, execution, control, and continual improvement. Physical risks are specific to each division or site, gradual, associated with each technology, and occur over relatively long periods. The following table outlines the acute and chronic physical risks and opportunities identified as the most relevant to our products and markets, together with a description of our current approach to managing them.

ACUTE	
Risks	**Approach and management**
Heatwaves / fires • Greater technical losses; stronger and more frequent peak loads resulting in outages. • Infrastructure damage due to the greater risk of fires; reduced efficiency. **Relevant in short, medium, and long-term.**	• Climatic studies carried out during project planning to identify potential future production uncertainties. • Enhanced design criteria. • Application of new materials that can withstand higher temperatures. • Design of overhead power lines for operation under conditions stricter than those mandated by regulations. • Installation of high efficiency photovoltaic modules. • Installation or upgrade of high efficiency cooling, detection and warning, and firefighting systems.
Cold snaps • Higher demand. • Additional volatility in trading market. • Damage and outages / ice and snow accretion. • Reduced production / performance losses. **Relevant in short, medium, and long-term.**	• Effective trading strategies. • Dynamic forecasting and monitoring of actual consumption. • Burial of power lines. • Enhanced prediction, detection and warning systems. • Improved emergency plans.
Extreme precipitation (flooding and/or landslides) • Possible physical damage to infrastructure, e.g. electrical cabling. • Sediment deposition and damage to infrastructure. **Relevant in short, medium, and long-term.**	• Analysis of flood risk and vulnerability to extreme events mentioned in the Environmental Impact Assessments. • Flood mitigation asset upgrades. • Burial of power lines. • Enhanced prediction, detection and warning systems. • Auto-protection plans; flood management emergency plans.
Storms and high winds • Damage to infrastructure such as overhead lines caused by falling trees. • Unable to access certain sites during storms. **Relevant in short, medium, and long-term.**	• Vegetation management. • Power line automation. • Enhanced prediction, detection and warning systems. • Specific location and siting studies. • Installation of more robust technologies as they become available.

ENVIRONMENT *continued*

CHRONIC	
Risks	**Approach and management**
Average temperature variations • Greater technical losses and less flexibility. • Reduced solar panel efficiency / variability of solar resource. • Variability of wind resources. **Relevant in long-term.**	• Application of new materials that can withstand high temperatures. • Design of overhead power lines for operation under conditions stricter than mandated by regulations. • Installation of high-efficiency photovoltaic modules. • Geographic diversification. • Consideration of climate variability in investment planning.
Sea level rise • Potential effects on substations due to risk of flooding. • Damage to equipment and infrastructure. **Relevant in long-term.**	• Specific analysis of the flood risk of substations. • Flood protection structures. • Monitoring and control.

OPPORTUNITIES

- Greater digitalisation and automation.
- Minimisation of response times.
- Reliable and resilient electrical power supply.
- Contributions to local communities.
- Innovation, research and development for new technology and tools.
- More resilient designs and equipment.
- Minimisation of environmental impact.
- Support for start-ups.
- Increased development of renewables and networks.
- Investment in storage technology.
- Seasonal climate trends that increase overall demand for electricity.
- Acceleration of decarbonisation of the industry, contributing to reduction in the need for adjustment.

Physical scenario analysis

Physical risks are analysed annually using relevant climate projections. The 2022 assessment was carried out in line with the requirements of the EU Taxonomy for sustainable activities. This analysis uses the most recent and relevant projections and takes ScottishPower's existing and planned physical assets into account. We have undertaken this analysis using average projections from 2030 to 2059 in line with the following three-stage process:

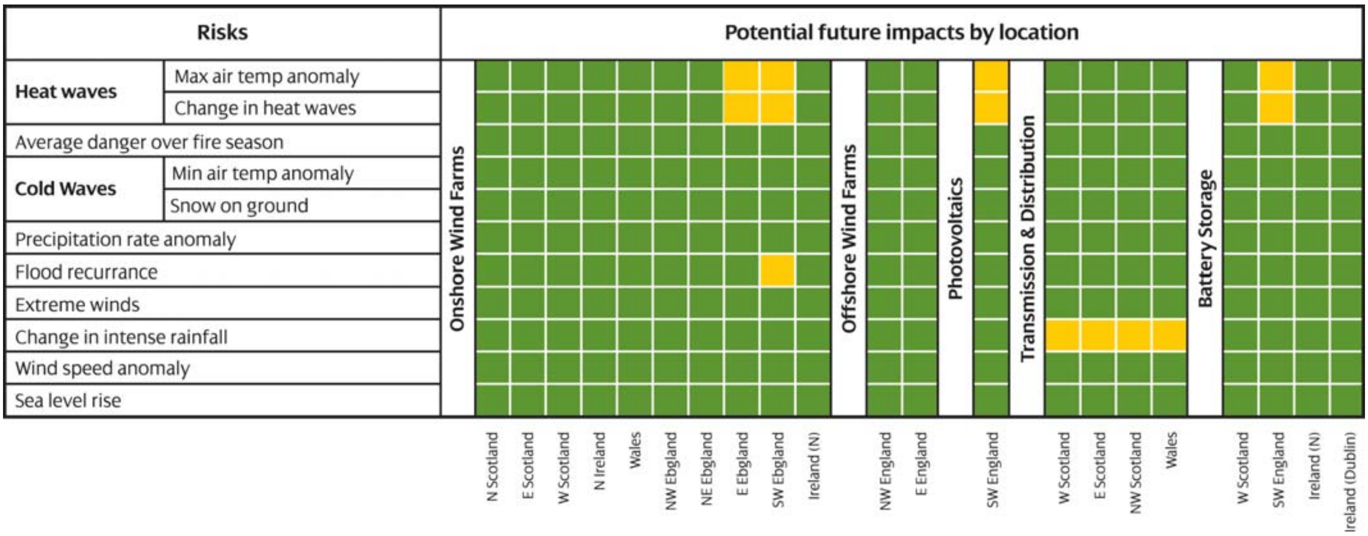
- **Sensitivity screening** – screening assets by technology group to identify which physical climatic risks may affect their performance throughout expected asset lives.
- **Impact analysis** – where an asset is identified as being sensitive to a climatic risk, assessing its exposure to these risks and potential impacts under relevant climate projections and locations.
- **Adaptation measures** – an assessment of adaptation measures already in place, future adaptive capacity and the remaining level of threat requiring additional measures.

The following sources were used for historical averages, today's baseline and future projections:

- **UK climate projections** – Wind speed, maximum and minimum air temperature, precipitation rate and amount of new snow on the ground.
- **Third UK Climate Change Risk Assessment** – Relative sea level rise and change in intense rainfall.
- **Copernicus** – Average danger over fire season, change in the duration of heatwaves and flood recurrence.

This impact analysis identified that sensitivities largely do not crystallise into potential future impacts under current projections, however, the evolution of acute risks such as heatwaves, flooding and changes in intense rainfall could lead to some impacts without the implementation of relevant adaptation measures. The following diagram indicates potential future impacts by risk, technology and location. Technologies and locations marked green indicate no expected impact under the climate scenarios. Those marked amber indicate areas where there is low expected impact under the climate scenarios. Our adaptation actions seek to mitigate these potential impacts. Areas in red would indicate more significant potential impacts requiring more significant adaptation actions.

ENVIRONMENT *continued*



Risk mitigation, adaptation and resilience

Transition

ScottishPower's current positioning as a result of our investment focus on grids and renewable energy puts us in a favourable position for facing transition risks. We believe that the opportunities stemming from the decarbonisation of the global economy (growth in renewables, investments in integrated smart grids, electrification of transport, green energy, etc.) outweigh the risks.

Our overarching risk management mechanisms and mitigating actions relating to the transition include:

- A strong business model with financial capacity to deal with change.
- Integration of climate change in management and corporate governance activities.
- Early action to transform the business model to adapt to climate change, allowing it to minimise transition risks and take advantage of the related opportunities.
- Management of risks deriving from climate change embedded in business processes, such as emergency and business continuity plans.
- Consideration of climate change in investment decision-making.
- Regulatory and insurance coverage.
- Diversity, including geography, technology and age of assets.
- Proactive engagement, partnership and dialogue on adaptation and climate science to deliver cost-efficient resilience solutions.
- Strong innovation focus.

Physical

Based on the impacts noted above (which take account of the current uncertainty associated with climate projections) and the existing mitigating factors, it is expected that the physical risks of climate change may not have a material, permanent impact on the consolidated figures of the Group, which is expected to be resilient.

The generally low risk of impacts is due in large part to the robustness of existing concept, location, design, planning and operation specifications, which aim to anticipate and prepare for changing climate conditions. Progressive renewal and evolution of assets enables adaptation to medium-to-long-term impacts. Specifications for new equipment take account of future weather scenarios and technical improvements to extract greater lifetime value from new projects.

Where potential future impacts are identified, adaptation plans are developed and delivered, including:

- Temperature related events
  - Multi-year on-site and historical studies of climate parameters are made during project planning and considered in the selection and evolution of the project.
  - Location-specific studies assess the uncertainty of production under potential climate variations and working hypotheses are updated continuously.
  - Design criteria are optimised to improve efficiency and durability under evolving climatic conditions and temperature ranges.
  - Operations and maintenance and risk prevention policies consider maximum operating temperatures.
  - Early warning systems forecast meteorological phenomena including increasing temperatures, enabling advance notice for resilience measures to be deployed.

ENVIRONMENT *continued*

- Flood recurrence and change in intense rainfall
  - Design criteria are optimised for resilience.
  - Secondary protective measures are deployed.
  - Liaison with external planning and response agencies.
  - Flood mitigation programmes are delivered, taking account of network climate adaptation reporting and climate resilience strategy as well as site-specific risk assessments.

Metrics and targets

The realisation of climate-related opportunities and the management of climate-related risks is central to our business strategy and model and is therefore embedded in our business targets. These targets show the direction of the future operations of the Group and are measured by a suite of relevant metrics. Details of these targets and metrics and our progress against them is featured throughout this report. The following table summarises the key targets and related metrics including timeframes where possible. It links these to the risks and impacts identified in 'Strategy' section and provides references to where target performance is discussed throughout this report.

Target	Metric	Related risks and opportunities (T = transition, P = physical, R = risk, O = opportunity)	Further information
Deliver 6 GW onshore renewables pipeline (includes wind and solar) Deliver >10 GW offshore renewables pipeline	GW onshore renewables GW offshore renewables	TR – Changes to consenting or emissions legislation TR – Uncertainty as to financing and aid for renewable development TO – Transfer of energy from fossil fuels to renewables TO – More attractive financing for companies with sustainable and resilient business models TO – Strengthened stakeholder relationships for companies acting on climate change PR – Infrastructure damage due to increased fire risk PR – Reduced production or performance PR – unable to access certain sites during storms	'Renewables operating review' section of the Strategic Report
Deliver RIIO-T2 and RIIO-ED2 commitments on network reliability and availability and network resilience by 2026 and 2028 respectively	% Reliability Customer interruptions Customer minutes lost	TR – Increase to cost of capital for businesses not delivering on climate change TO – More attractive financing for companies with sustainable and resilient business models TO – Increased electrification of heat and transport TO – Transfer of energy from fossil fuels to renewables TO – Increasing importance of networks in terms of digitalisation, smart grids and system flexibility – DSO transition TO – Strengthened stakeholder relationships for companies acting on climate change PR – Greater technical losses, stronger and more frequent peak loads resulting in outages PR – Infrastructure damage due to increased acute events PR – Higher demand due to cold snaps PR – Reduced performance or efficiency PR – Unable to access certain sites during storms	'Energy Networks 2022 performance' section of the Strategic Report
Deliver our ECO4 obligations by 2026	Properties treated	TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them TO – Strengthened stakeholder relationships for companies acting on climate change	'Energy customers – Energy Retail and Wholesale' section of the Strategic Report
By value, 80% of purchases awarded to sustainable suppliers in 2023	% of total purchase value	TR – Higher cost of raw materials TR – Supply chain uncertainty	'Suppliers and contractors' section of the Strategic Report

ENVIRONMENT *continued*

Target	Metric	Related risks and opportunities (T = transition, P = physical, R = risk, O = opportunity)	Further information
Reduce absolute Scope 1, 2 and 3 GHG emissions by 64% by 2030 from a 2019 base year	GHG inventory, tCO_2e*	TO – More attractive financing for companies with sustainable and resilient business models TO – Strengthened stakeholder relationships for companies acting on climate change	'Greenhouse gases' section of the Strategic Report
Reduce GHG emissions from use of sold products by 28% by 2030 from a 2019 base year	GHG inventory, tCO_2e	TO – Increased electrification of heat and transport TO – Improved energy efficiency and associated benefits for consumers, and an improved relationship with them TR – Uncertainty about development and implementation of new technologies	'Our activities – Energy Retail and Wholesale' section of the Strategic Report.
Deliver 500 MW green hydrogen capacity by 2030	MW of green hydrogen capacity	TO – Increased electrification of heat and transport TR – Uncertainty about development and implementation of new technologies	'Energy Retail and Wholesale operating review' section of the Strategic Report

* tonnes of carbon dioxide equivalent

Greenhouse gases

Iberdrola has made a strong commitment to decarbonisation, setting a strategic goal to become net zero in Scopes 1, 2 and 3 before 2040. As an additional contribution to both the climate and biodiversity crises, Iberdrola will plant 20 million trees by 2030 (eight million trees by 2025). This commitment to a net zero path is central to Iberdrola's sustainable business strategy and aligns with the UN SDGs.

In 2022, ScottishPower set a science-based target, complementing the targets set by Iberdrola. The target commits ScottishPower to reduce absolute Scope 1, 2, and 3 GHG emissions from fuel and energy related activities and use of sold products by 64% by 2030 from a 2019 base year. This includes a Scope 1 and 2 absolute reduction target of 47% by 2030 from a 2019 base year, which is consistent with reductions required to keep global warming to 1.5°C, a Scope 3 absolute reduction in category 3 emissions from all sold electricity of 100% from a 2019 base year and a scope 3 absolute reduction in GHG emissions from use of sold products of 28% over the same timeframe. Much work is already underway on our GHG reduction journey, supported by an implementation plan and new reporting and delivery structures across ScottishPower.

Inventory

Overall, we have seen a 17% reduction in GHG emissions in 2022 compared to 2021 and a 23% reduction since our 2019 baseline year. The table and the accompanying footnotes below, presents the value chain GHG emissions of the ScottishPower Limited Group for 2022.

ENVIRONMENT *continued*

			2022		2021		2019
		Notes	kWh	tCO_2e (Note (a))	kWh	tCO_2e (Note (a))	tCO_2e (Notes (a),(b))
Scope 1	Combustion of natural gas*	(c),(d)	38,576,895	7,042	33,621,364	6,158	5,406
	Combustion of fuel for transport*	(c),(d)	62,542,855	15,589	64,397,445	16,171	8,011
	Combustion of fuel for generators*	(c),(d)	10,744,011	2,483	1,326,708	343	220
	Fugitive emissions (SF_6, CH_4** and refrigerants)	(c),(d)	–	14,236	–	18,456	21,264
	Total Scope 1		**111,863,761**	**39,350**	99,345,517	41,128	34,901
Scope 2	Purchased electricity for own use – location-based*	(c),(d),(e),(i)	63,818,654	12,341	83,373,667	17,702	19,624
	Purchased electricity for own use – market-based	(c),(d),(e),(i)	63,818,654	6,948	83,373,667	10,199	20,534
	Network losses – gross	(c),(d),(f),(h)	2,907,000,000	562,156	3,032,000,000	643,785	824,300
	Network losses – net	*(c),(d),(f),(g),(h)*	*2,193,265,823*	*424,134*	*2,374,951,070*	*513,890*	*N/A*
	Total scope 2 location-based		**2,970,818,654**	**574,497**	3,115,373,667	661,487	843,924
	Total scope 2 market-based		**2,970,818,654**	**569,104**	3,115,373,667	653,984	844,834
Scope 3	Business travel – vehicles (employee-owned and leased)*	(d),(j)	7,698,122	1,914	3,528,604	1,533	5,847
	Business travel – other (rail and flights)	(d),(j)	–	700	–	19	
	Emissions associated with the supply chain	(d),(h),(j),(k),(l)	–	589,000	–	444,969	983,352
	Fuel and energy-related activities (including product related upstream emissions)	(d),(h),(j),(k),(m)	–	795,654	–	981,923	815,308
	Waste generated in operations	(d),(h),(j),(k)	–	1,511	–	705	6,599
	Employee commuting	(d),(h),(j),(k),(n)	26,891,477	6,745	26,643,367	6,798	2,743
	Sale of electricity to end users	(d),(j)	17,083,801,000	3,827,559	17,897,605,000	4,782,371	5,181,525
	Sale of gas to end users	(d),(j)	21,115,322,000	3,854,390	25,844,634,000	4,733,703	4,749,765
	Total Scope 3		**38,233,712,599**	**9,077,473**	43,772,410,971	10,952,021	11,745,139
	Total location-based		**41,316,395,014**	**9,691,320**	46,987,130,155	11,654,636	12,623,964
	Total market-based		**41,316,395,014**	**9,685,927**	46,987,130,155	11,647,133	12,624,874

* Mandatory disclosures required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. The remaining information is disclosed on a voluntary basis

** SF_6 – sulphur hexafluoride. CH_4 – Methane.

(a) tCO_2e is a metric used to compare the emissions from various GHGs on the basis of their global-warming potential ("GWP") in comparison to the GWP of carbon dioxide ("CO_2"). The main GHG are CO_2, CH_4, nitrous oxide and fluorinated gases.

(b) Baseline value chain footprint related to our Science Based Target.

(c) We use the GHG Protocol Corporate Reporting Standard and account for Scope 1 and 2 emissions from operations over which we have control, or the relevant proportion for jointly controlled arrangements.

(d) Data was calculated using relevant Department for Environment, Food & Rural Affairs ("Defra") conversion factors, with the exception of Fugitive Emissions, which were calculated using IPCC Assessment Report 5 emissions factors.

(e) Electricity consumption related to ScottishPower owned EVs is accounted for in 'Purchased electricity'.

(f) All data reported is based on January to December except for losses data, which is based on figures provided on a regulatory year basis (1 April to 31 March).

(g) Scope 2 losses emissions net of our own green generation are presented for information.

(h) Estimated

(i) Scope 2 emissions are presented as both location-based (based on the GB-wide Defra conversion factors) and market-based (taking account of the impact of moving our own electricity use to a green tariff).

(j) We use the GHG Protocol Corporate Value Chain (Scope 3) Standard for calculating Scope 3 emissions.

(k) Emissions categories reported for the first time this year. Footprint covers full value chain with the exception of emissions related to investments (equivalent to 12,651 tCO_2e in 2019), which will be included in future years as quantification matures.

(l) 2019 calculation of supply chain emissions used spend multiplied by relevant environmentally extended input-output factors. 2021 and 2022 supply chain emissions were calculated from an average of the actual emissions of our suppliers.

(m) This category includes upstream emissions (product, fleet, own gas and other fuels), well-to-tank emissions and transmission and distribution related emissions.

(n) Our process for estimating commuting emissions has been updated to include staff survey data for 2021 and 2022.

ENVIRONMENT *continued*

Scope 1 covers direct emissions from owned or controlled sources. In 2022, Scope 1 emissions represented 0.4% of total emissions reported. Overall, Scope 1 emissions decreased by 4% between 2021 and 2022, largely driven by reductions in fugitive emissions. However, Scope 1 emissions in 2022 were 13% higher than in our 2019 baseline year, due to increases in fleet and generator emissions related to a ramp up in capital programme delivery and natural gas emissions related to the increased use of our Hatfield gas storage facility.

Scope 2 covers indirect emissions from generation of purchased electricity. In 2022, Scope 2 emissions represented 5.9% of total emissions reported. Overall, Scope 2 emissions have decreased by 13% between 2021 and 2022 and 33% since 2019. This has largely been driven by a reduction in energy lost from the network between generator and user, combined with lower GB grid GHG intensity.

Scope 3 represents all other indirect emissions that occur in our supply chain. In 2022, Scope 3 emissions represented 93.7% of total emissions reported. Overall, Scope 3 emissions have decreased by 17% between 2021 and 2022 and 23% since 2019, largely driven by a decrease in the third-party electricity and gas supplied.

The following factors provide carbon intensity metrics for both the electricity that we generate and the energy that we supply. These are calculated both using the mandatory SECR emissions as required by entities in scope, as well as by using the full value chain emissions figures to provide a more comprehensive view.

	Note	**2022**	2021 (Note (a))
		tCO_2e/kWh	tCO_2e/kWh
Carbon Intensity of electricity generated (based on SECR-only data)	(b)	**0.00001**	0.00001
Carbon Intensity of energy supplied (based on total Scope 1-3: location-based)		**0.00025**	0.00026

(a) 2021 figures have been restated to show actual emissions. There has been no significant change to the generation intensity in relation to SECR-only figures, but moving to reporting full value chain emissions has led to a minor change in energy supplied intensity.

(b) Presented in tonnes in line with SECR guidance.

Streamlined Energy and Carbon Reporting ("SECR")

We are committed to producing meaningful climate disclosures in line with those required by The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 ("the 2018 Regulations"). The tables above, relating to the Scottish Power Limited Group, include the mandatory disclosures required by SECR, in addition to value chain GHG emissions which are disclosed on a voluntary basis. The information required by the 2018 Regulations has been independently verified by Mabbett & Associates Ltd on a limited assurance basis.

Throughout 2022, we have carried out a range of energy efficiency initiative measures, including:

- Rollout of new efficient lighting systems at over 25 offices, depots and wind farms.
- Roof membrane and solar installations completed at seven sites.
- Over 60 additional dual EV chargers installed across the SP Estate at offices, depots, wind farms and substations and an additional 14 EVs added to the commercial fleet.
- Successful pilot of Hydro-treated Vegetable Oil ("HVO") for use in generators and implementation of relevant contracts.
- Implementation of additional environmental requirements in tender and contract specifications to encourage energy efficiency through our supply chain.
- Installation of modern efficient heating, ventilation and air conditioning systems at our Bonnybridge and Dumfries depots, which will save an estimated 72,459 kWh of energy annually.
- Selection of 15 transmission substation sites representing a selection of structural archetypes, ages, geographic locations and roof types, to undergo energy monitoring to establish the scope of building energy efficiency refurbishments to be carried out on 48 substations by 2026.
- Continued delivery of a transmission losses reduction programme, including replacement of ageing equipment such as transformers, shunt and series reactors and overhead lines with new lower-loss equipment.

Biodiversity

During 2022, ScottishPower adopted the new Iberdrola objective to have a net positive impact on biodiversity by 2030 and supported a global pilot of a new biodiversity accounting methodology.

In the reporting year we had 27 facilities covering over 31,000 hectares ("ha") and over 3,500 km of networks in Protected Areas and Areas of High Biodiversity Value with 185 key species identified within our areas of operation.

During 2022, 45 programmes to monitor, protect and enhance biodiversity were started or ongoing and 31 were completed, including:

- Monitoring of birdlife and chiroptera.
- Monitoring of terrestrial and aquatic flora.
- Research and ecological studies.
- Protection of flora and vegetation management including the planting of over 500,000 trees.
- Partnerships, collaborative projects and awareness initiatives.

Energy Networks reviewed processes and developed their approach for the RIIO-T2 price control, following the biodiversity mitigation hierarchy. An internal biodiversity working group was convened to lead the strategic implementation of biodiversity plans. This group identified the sites to be considered for 'Biodiversity No Net Loss' and drove the piloting of tools and work with external parties to identify methodologies for baselining biodiversity and natural capital to allow a better understanding of Energy Networks' position.

ENVIRONMENT *continued*

Energy Networks also worked with NatureScot through the Scottish Linear Infrastructure Group, as part of a collaboration to develop a standardised Scottish biodiversity tool.

Renewables onshore completed a significant programme of works at Kilgallioch wind farm, including restoration of 36 ha of peatland and a three-year programme of forestry restocking leading to the establishment of over 1 million broadleaf and commercial conifers. A ten-year bird monitoring programme was completed at Lynemouth Windfarm, with results indicating that mitigation measures have been successful in deterring geese and swans from using the wind farm.

Renewables offshore activities in 2022 centred around the EA1 and EA3 projects, including pond surveys to assess the presence of great crested newts, arboricultural assessment of trees and hedgerows within or adjacent to cable routes, breeding bird transect and bird vantage point surveys, and reptile surveys.

Circularity

In 2022, ScottishPower adopted the new Iberdrola circular economy model and goals, which includes actions on blade recycling, supply chain engagement and low-carbon steel. In 2022, we achieved an overall 39% reduction in waste generated from 2021, and 90% diversion from landfill.

In 2022, Energy Networks carried out a gap analysis against the BS8001 Circular Economy Standard to create a circular economy action plan to target activity. Delivery of the initial phases including framing and scoping, baselining material use, waste, and current circular practice, will be completed in 2023.

Idea generation and feasibility work commenced, with a focus on electrical assets. The resulting action plan outlines high level future activity to the end of 2024, including building the business case for circularity, piloting and prototyping, delivery and continuous and transformational improvement.

During 2022, two floating bins which skim water for plastics and rubbish were installed to cut waste pollution in the sea and harbour at Lowestoft thanks to our EA1 offshore wind farm. The two 'seabins' are among just 860 being used around the world and were provided by Renewables for Associated British Ports ("ABP") to support the drive to clean up oceans and seas. Picking up rubbish like plastic bottles and bags, cigarette ends and crisp packets from the water's surface, one seabin can catch up to one tonne of debris a year, including microplastics as small as 2 mm. Costing £4,000 each, we installed one seabin at our EA1 offshore wind farm pontoon, while the other was donated to ABP to help cut waste in the harbour.

SOCIAL IMPACT

At ScottishPower, we see our local communities as key stakeholders in our business. Engaging with them is essential in delivering our objectives and underpins our core value of collaboration. We continually strive to be a trusted, respected, and an integrated part of the community, by operating with integrity, transparency, and working closely within the community to build relationships. We aim to ensure we conduct our activities responsibly and make a positive contribution to society.

Investing in the community

We have a long track record of supporting communities by sharing resources and skills of our employees.

We regularly contribute to community-based organisations and engage in activities to help address a range of wider issues in the communities where we operate. This specific voluntary engagement with charitable organisations, or activities that extends beyond the Group's core business is broadly known as 'Community investment'.

As part of the Iberdrola Group, ScottishPower uses the London Benchmarking Group Framework to evaluate our community investment activity. This framework is used by leading businesses around the world, providing a comprehensive and consistent approach to measuring the real value and impact of corporate community investment to both business and society. During 2022, we voluntarily contributed nearly £12.7 million (2021 £23.2 million) in community support activity, through cash, time, in-kind support and management costs associated with running community programmes.

Community engagement and consultation

We have a strong culture of employee volunteering across the Group, and every employee is offered the opportunity to take one day's paid leave each year to volunteer. In 2022, 1,215 members of staff (2021 1,050 members) took part in volunteering activities organised by ScottishPower and contributed nearly 8,800 working hours.

As part of the operation of our onshore wind farms, we support 36 community benefit funds; empowering communities spread across the UK to control how this money is spent to best serve the needs of the local area. During 2022, Renewables gave more than £6.9 million (2021 £5.8 million) to local communities neighbouring its wind farms, bringing the total provided to-date to over £52 million.

ScottishPower has a significant presence in many communities throughout the UK. We consult with communities across our operations, where developments are planned, or where we are decommissioning assets. Key areas of community interaction include: the siting of new facilities such as wind farms; the presence of transmission and distribution lines; decommissioning older plant; and routine maintenance work. We take a proactive approach to providing landowners, stakeholders and our customers with accurate information, from pre-planning through to completion.

It is particularly important to us as a developer, owner and operator to ensure that those affected by our work are aware in advance of our activities. Through the development of longstanding relationships with community groups, elected representatives, interest groups and individuals, we have created a variety of channels allowing communities to have their say.

Our community consultation processes include representation at community meetings; presentations and forums such as in-person and virtual public information days; information published on our website; and, through social media. Our facilities host visits from community groups, maintain visitor centres and run Local Liaison Committees which provide a forum for discussion between ourselves and community representatives.

SOCIAL IMPACT *continued*

As many of our assets are situated on land that we do not own, policies are in place to ensure that the safety and integrity of the plant is maintained, while respecting the needs of the landowner, the local community and the general public. Energy Networks, and those working on its behalf, adhere to a publicly available Land Code of Conduct which sets out guidance of commitment to grantors and has been prepared in consultation with key stakeholders.

We work closely with the UK Government and devolved administrations to develop policy on community engagement and benefit, and to ensure that it observes to all voluntary codes of good practice.

ScottishPower Foundation

The ScottishPower Foundation ("the Foundation") was established in 2013 to reinforce our commitment to charitable work throughout the UK. It is a registered Scottish charity (SC043862) and a company limited by guarantee (SC445116). The Foundation provides funding to registered charities for the following purposes:

- the advancement of education;
- the advancement of environmental protection;
- the advancement of the arts, heritage, culture or science;
- the prevention or relief of poverty and the relief of those in need by reason of disability or other disadvantage; and
- the advancement of citizenship and community development.

Decisions to award funding are made by an experienced Board of Trustees who have a special interest in the above areas. The Foundation continued its support for the Restoration Forth project for a second year. The project received the first grant to be awarded from the Foundation's Marine Biodiversity Fund when it launched in 2021 and will receive up to £600,000 over a three-year period. The project is managed by WWF in partnership with scientists, charities and local community groups. Together they will design a blueprint to restore and sustainably manage seagrass and oyster habitats for a thriving Firth of Forth on the East Coast of Scotland.

In 2022, the Foundation awarded funding of over £1.1 million to 19 registered charities to support their work in the UK. The Engineering Development Trust and Edinburgh Science Foundation are both engaging young people on the topic of climate change through activities in and out of the classroom. Whizz-Kidz is providing wheelchair skills training to young wheelchair users across the UK, increasing independence and mobility, and Deafblind UK has been conducting research into an educational provision for young students with deaf blindness to ensure no one is left behind. The Ocean Conservation Trust and Keep Britain Tidy are cleaning up our seas; one by restoring carbon-sequestering seagrass meadows using cutting edge science, and the other by preventing fishing nets from being disposed of in the water. Coldharbour Mill Trust is working to preserve heritage crafts in Devon, while the National Library of Scotland has been painstakingly digitising hundreds of hours of video and audio tapes to catalogue the nation's history.

The annual ScottishPower Foundation awards were announced at an Awards Ceremony on 1 November 2022 and provided £40,000 of additional funding to projects through five award categories including the Charity Champion Award, which gives special recognition to individuals working in the charitable sector for personal dedication. Following a competitive application process for funding of projects, 19 applicants were shortlisted by the Board of Trustees in November 2022 and are intended to be awarded funding for projects to be delivered in 2023 subject to budget and contract.

Energy Networks

Energy Networks has shaped its business around geographical districts, enabling them to be closer to the communities they serve and allowing communities to have influence upon the delivery of projects in their area.

Supporting local communities to achieve net zero

Within the next ten years alone, we expect the number of EVs in our two distribution network areas to increase to over 1.5 million vehicles, and with this, the requirement for EV charging will double the demand of electricity in domestic properties. We are working closely with our stakeholders to ensure a joined-up approach that supports their individual needs and helps facilitate the significant impact on our networks. We are working with all 32 Scottish councils and 18 across England and Wales to support their decarbonisation plans. This year, we have hosted six workshops on EV charger installation and offered training for all local authorities. We have completed EV optioneering for all local government bodies across our SPM licence area, along with specific funding options and projects for the Welsh Government's EV rollout, targeting areas where the commercial market has not yet delivered. We are a key enabler to the decarbonisation of heat, but the concurrent increases in heat pumps means demand will increase beyond existing network limits. We are taking learnings from our innovative Heat-Up project to support the Scottish Government in producing a framework to support network solutions to facilitate the uptake of heat technologies. In our SPM region, we are developing a decarbonisation pathway for Liverpool City Region Combined Authority to support the region, including Chester, Cheshire West and Warrington.

Given the criticality of the climate emergency, we are helping our communities across England, Scotland and Wales to embrace their low energy solutions in a way that is beneficial for local needs. Community energy is playing a crucial role in achieving net zero by increasing participation and embedding behaviour change. Community energy organisations are a critical part of the future energy system and in ensuring a just transition. We are leading the way in community energy through supporting the planning and development of key projects, aimed at supporting our local communities' journey to net zero. We have established a number of partnership projects and collaborations with local community energy groups, building on work in this area, gaining wider stakeholder insight and building this into our plans.

Community engagement – keeping our communities safe

We consistently deliver clear and useful information on electrical safety through safety campaigns, and attendance at events. We have reached over 100,000 individuals through our Powerwise website aimed at electrical safety for children over a five-year period. We have also reached over 94,900 children through Fixed Safety Education Centres as well as carrying out over 300 'Crucial Crew' events where attendance has been upwards of 40,000 pupils. We participate in numerous regional agricultural shows. In addition, we support the National Farmers Union and National Forestry Industry through regular meetings promoting: safety; awareness of our assets; recurring incidents; supported training and awareness sessions. We also promote and circulate any ongoing safety campaigns they have in relation to electrical safety.

SOCIAL IMPACT *continued*

Supporting the vulnerable in our communities

Ongoing engagement with stakeholders and people in vulnerable situations, complemented by a sophisticated data strategy, have led us to build a comprehensive and accurate picture of our customers' needs. These needs are complex, diverse and multi-dimensional; addressing them all requires the involvement and support of many bodies and organisations across the private and public sectors. At the same time, as a regulated network, everything we do is funded by our customers so it is essential that our efforts in tackling vulnerability focus on the areas where our customer base and our expert stakeholders believe we can have the most impact. Over the years, we have worked closely with them to define our role in supporting customers in vulnerable situations; for example, we have learned that our customers want us to support people in times of hardship but do not believe it is our role to provide direct financial support.

Collaboration with customers and stakeholders led us to focus on the three following needs:

- Protect the mental and physical welfare of customers when a power cut occurs.
- Tackle the root causes and consequences of fuel poverty and access immediate help to deal with wider social issues.
- Access the benefits and opportunities of low-carbon technologies and navigate a changing energy system.

While our consumer vulnerability programme is focused on addressing these three core needs, we have taken new steps to ensure that our vulnerable customers can access 360-degree support that truly makes a lasting impact on their wellbeing and their quality of life. Our Coalition of Partners model gives us the means to directly connect those in need of extra help with tailored support from organisations with the expertise and resources necessary to make a difference. This model complements our portfolio of support, allowing us to focus our efforts where we can be more effective while leaving no stone unturned to support our vulnerable customers.

Renewables

As a responsible developer, Renewables maintains a clear focus on engaging with the communities around our existing sites and in our areas of growth. We are committed to being a good neighbour throughout the development, construction and operation phases of our projects and to ensuring that the benefits of our projects are realised in local areas through helping to create local employment and enabling improvements to local infrastructure and services.

Local community engagement

Renewables continues to provide community benefit funds to those living near to our operational onshore wind farms. We believe that local people are best placed to make decisions about the initiatives that will be of greatest value to them and empower them to make decisions about how to spend funds.

Funds can be used for purposes of community facilities, skills and employment, community or local events, sport and recreation, environmental improvements, youth and education and heritage. Moving forward, we are also encouraging communities to use their funding to focus on initiatives that will help them to reduce the carbon they produce and become net zero, for example through the installation of solar panels on communal buildings, purchase of EVs to provide support services or for shared community use and installation of EV charge points for the benefit of local residents and to support tourism in rural areas.

Environment

Renewables spends over £1 million every year to adaptively manage and monitor around 10,000 hectares of land. This includes approximately 9,000 hectares of peatland restoration and 1,000 hectares of native woodland creation and management. This activity provides many benefits for a range of associated species such as breeding waders, black grouse, hen harriers, merlin and golden eagles.

We also maintain a robust Environmental Management System (ISO 14001 accredited) to support the business in managing environmental risks throughout the project lifecycle.

Whitelee Visitor Centre

Whitelee is the UK's largest onshore wind farm hosting 215 turbines, generating 539 MW; enough to power 350,000 homes. Whitelee Windfarm also has a visitor centre that has welcomed more than 885,000 people to date, providing an opportunity to see first-hand how local communities, the natural environment and a hybrid power station can co-locate together.

The visitor centre at Whitelee is managed by Glasgow Science Centre and offers a free hands-on interactive exhibition, a café, cycle facilities, car parking and EV charging points. There is a bus tour to explore the wind farm, learn more about the history and ecology of the site and get close to the wind turbines. The visitors centre offers an extensive education programme, with free curriculum-based sessions from nursery to further education and various free craft sessions for families during the school holidays. Part of the community benefit fund at Whitelee pays for Whitelee Countryside Rangers who promote responsible access within the wind farm and host free events including guided woodland walks, pond searches, wildflower apothecary and summer holiday clubs. Whitelee hosts an annual 'Run the Blades' running festival incorporating a 10 km, half marathon and 50 km ultramarathon, as well as numerous smaller charity events such as sponsored dog walks and Duke of Edinburgh Award activities.

During COP26, the Whitelee visitors centre was a key hub for showcasing the Renewables story to date as well as sharing our future plans. Post-COP26, the appetite to support the net zero movement and the role of renewables technology within this has continued and we have seen the visitors centre continue to host a number of visits from UK and International delegates including UK and Scottish Government bodies.

Energy Retail and Wholesale

In 2021 we created a new department within smart solutions – Smart Cities. This team's mission is to help decarbonise at a community level, working mainly with local authorities but also with other community groups, such as housing associations. Smart Cities can reach consumers where a private financial investment may be unachievable; through local authorities and community groups they can access low-carbon technologies. In addition, by deploying at scale, we can reduce the price per solution.

SOCIAL IMPACT *continued*

Energy Retail and Wholesale *continued*

In addition to supporting our customers, we also support the charity sector, particularly our longstanding relationship with Cancer Research UK. During this difficult period for charities, customers on our 'Help Beat Cancer' tariffs continue to make a vital contribution to the incredible work that Cancer Research UK does. We have raised over £35 million to date through a combination of sponsorship of events like Stand Up to Cancer, sales of our 'Help Beat Cancer' tariffs, and fundraising activities.

We engage regularly with the key industry stakeholders such as Ofgem, Citizens Advice and Ombudsman Services, to keep them fully updated of our community actions.

We are one of the remaining suppliers that have National Community Liaison Officers ("CLOs"). Our CLOs focus on supporting customers who have concerns over their energy consumption or billing to ensure clear understanding. They also provide support for those struggling with their energy bills. This is done in the customer's home. Our CLOs also provide locational support to our business customers.

Our Hydrogen department is continually working with businesses across the UK to help support their strategic aims to decarbonise their operations. For two years we have supported the Scottish Schools Hydrogen Challenge with the purpose of educating young people about the importance of green hydrogen in tackling the climate emergency.

SECTION 172 STATEMENT

Statement by the directors in performance of their statutory duties in accordance with section 172 of the Companies Act 2006

The Companies (Miscellaneous) Reporting Regulations 2018 requires the directors of Scottish Power UK plc to give a statement which describes how the directors have had regard to the matters set out in section 172(1) of the Companies Act 2006 when discharging their duty under that section.

The directors acknowledge and understand their duties and responsibilities, including that, under section 172 of the Companies Act 2006, a director of a company must act in the way he or she considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

(a) the likely consequences of any decision in the long-term;

(b) the interests of the company's employees;

(c) the need to foster the company's business relationships with suppliers, customers and others;

(d) the impact of the company's operations on the community and the environment;

(e) the desirability of the company maintaining a reputation for high standards of business conduct; and

(f) the need to act fairly as between members of the company.

The delivery of the strategy of the Group, of which the Company acts as the holding company, requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting the Group's performance and reputation by prudently managing risks inherent in the business. In carrying out this strategy, the directors' duties under section 172 of the Companies Act 2006 have been considered.

The directors strongly believe that effective and meaningful engagement with stakeholders and employees is key to promoting the success of the Company. The SPUK Board regularly reviews the operational performance and risk issues for the Group, and also to approve certain reserved matters as defined under the terms of reference of the SPUK Board.

The SPUK Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company.

The Company identifies and interacts with its stakeholders via its principal subsidiaries of the three divisional businesses operated by the Group during the year, being Energy Networks, Renewables, and Energy Retail and Wholesale, which are owned by their respective Head of Business Sub-holding companies: SPENH, SPREL, and SPRH, as summarised in the 'Who we are' sub-section of the Strategic Report, on page 1. In addition, please refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the SPUK Board's oversight of the consideration given to the Company's, and its divisional businesses', engagement with key stakeholders.

The directors strongly believe that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. Details and examples of engagement with the Company's key stakeholders (both direct and indirect) who are considered by the SPUK Board in its decision-making with respect to matters reserved to it are as follows:

- **Customers:** details of how the Group engages with its customers are explained in the 'Energy customers' sub-section of the Strategic Report, on page 8. Whilst the Company does not have direct customers of its own, during the year, the SPUK Board received and considered the key service performance indicators reported in the 'Energy customers' sub-section of the prior year's Strategic Report approved and delivered by the SPUK Board.
- **Employees:** details of how the Group engages with its employees are set out in the 'Employees' sub-section of the Strategic Report, on page 5. SPUK approved the adoption by the Company of the 2021 ScottishPower Modern Slavery Statement.
- **Communities and the environment:** details of how the Group engages with communities and considers the environment are set out in the 'Community and environment' sub-section of the Strategic Report, on page 11. During the year, the SPUK Board was briefed on the Company's ESG assessment rating system for suppliers which applies to the ScottishPower procurement contract awards process.
- **Suppliers and contractors:** details of how the Group engages with its suppliers are set out in the 'Suppliers and contractors' sub-section of the Strategic Report, on page 11. During the year, the SPUK Board considered and approved key contract awards made by the Company.
- **Government and regulators:** details of how the Group engages with governments and regulators are set out in the 'Government and regulators' sub-section of the Strategic Report, on page 10. During the year, the SPUK Board received its principal update regarding the economic, regulatory, and political implications of the retail and wholesale markets as reported in the 'Government and regulators' sub-section of the prior year's Strategic Report approved and delivered by the SPUK Board.

In addition, details of how the Company interacts with its shareholders is described in the introduction to the 'Engaging with stakeholders' section of the Strategic Report on page 4.

The directors, both individually and together as a board, consider that the decisions taken during the year ended 31 December 2022 in discharging the function of the SPUK Board were in conformance with their duty under section 172 of the Companies Act 2006.

The SPUK Board is assisted in considering key stakeholders as part of the decision-making process by including stakeholder considerations in board papers as appropriate, and board papers are carefully reviewed and considered by all directors.

BY ORDER OF THE SPUK BOARD

Marion S Venman
Secretary
18 April 2023

Directors' Report

The directors present their report and audited Accounts for the year ended 31 December 2022.

Information contained within the Strategic Report

The directors have chosen to disclose information on the following, required by the Companies Act 2006 to be included in the Directors' Report, within the Strategic Report, found on pages 1 to 49:

- information on financial risk management and policies;
- information regarding future developments of the Group;
- information on charitable donations;
- information in relation to innovation activities; and
- information on employee regulations and policies.

In addition, energy and carbon reporting disclosures, as required by entities in scope of the 2018 Regulations are included in within the Strategic Report on pages 42 to 44.

Results and dividend

The net profit for the year attributable to the equity holders of the parent amounted to £487.0 million (2021 £54.5 million). A dividend of £715.0 million was paid during the year (2021 £nil). Refer to Note 29 for further details.

Taxation

The Iberdrola Board has explicitly acknowledged its responsibility for tax policy and strategy in all of the companies that it controls. The Iberdrola Board has approved a Corporate Tax Policy which forms part of the Corporate Governance System and sets out that board's commitment to responsible tax practices throughout the Iberdrola Group. The Corporate Tax Policy was initially approved by the Iberdrola Board in 2010 and is regularly updated.

The Group applies the Corporate Tax Policy as approved by the SPL Board and the ScottishPower Tax Strategy as approved by the SPL Board's Audit and Compliance Committee which accords with the Corporate Tax Policy and, as required by UK law, is published at www.scottishpower.com ("the Corporate website") under 'About Us'/'Company Reporting'.

We are a responsible tax payer and seek to be open, honest and transparent in dealings with the tax authorities and to comply with both the letter and the spirit of tax laws set by the UK Government. We remit taxes due on a timely basis, and have a relationship with HMRC based on mutual trust and cooperation. Payment of taxes is our principal contribution to sustaining public expenditure and one of our contributions to society.

Further details on taxes and other government obligations can be found in the Strategic Report on page 15.

CORPORATE GOVERNANCE

Statement regarding the corporate governance arrangements of the Group

As required by the Companies (Miscellaneous) Reporting Regulations 2018, the directors of the Company have set out a statement of the corporate governance arrangements of the Company.

The ultimate parent of the Company is Iberdrola, S.A., which is listed on the Madrid stock exchange. The Company, which is wholly owned by SPL, does not apply a corporate governance code on the basis that the SPL Board, in accordance with its terms of reference and the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation ("the Group Governance Framework"), has adopted its own rules and principles which are based on widely recognised good governance recommendations. Those rules and principles that applied to the Company and its group during 2022 are set out as follows:

The SPL Board's terms of reference and the Group Governance Framework are published on the Corporate website under 'Corporate Governance'/ 'Governance and Sustainability System'/ 'Corporate Governance'.

Corporate governance system

The Company is governed by the SPUK Board, which consists of directors who bring a broad range of skills and experience to the Company. The SPUK Board is regulated in accordance with the Company's Articles of Association (adopted on 7 July 2016) which are registered at Companies House.

In discharging its responsibilities and in the exercise of its decision-making powers, and in accordance with the Company's Articles of Association and the SPUK Board's terms of reference, the SPUK Board has, in accordance with the Group Governance Framework, adopted the ScottishPower corporate governance system (also known as the SP GSS) which is approved by the SPL Board, and which applies to the Company and its group.

The ScottishPower corporate governance system includes the internal corporate rules (for example, the purpose and values of the Iberdrola Group, the Code of Ethics, corporate policies and other internal codes and procedures) that make up the corporate governance system of the Iberdrola Group, which the SPL Board, having reviewed the same, has expressly adopted as part of the SP GSS, as well as the specific rules and regulations required to implement or supplement it.

In addition, the SPL Board routinely considers and takes into account those parts of the corporate governance system of the Iberdrola Group (of which the Company is part) which may have direct or indirect application to ScottishPower. Furthermore, the SPL Board actively considers and adopts specific policies and rules which apply to ScottishPower. Such policies and rules are in turn applied by the SPUK Board as part of the SP GSS as adopted by it.

The SP GSS is published online on the Corporate website under 'Corporate Governance'/ 'Governance and Sustainability System'.

Board composition

The directors who held office during the year were as follows:

Nicola Connelly	Director
Marion S. Venman	Director
Donald Wright	Director

As at the date of this report, there have been no changes to the composition of the Board of the Company since year end. There is no separate appointments committee within ScottishPower. Instead, appointment matters relevant to ScottishPower and the Company are dealt with in accordance with an internal group procedure for approving proposed appointments or removals of directors at companies in which the Iberdrola Group holds an interest, and reviewed by the Iberdrola, S.A. Appointments Committee ("IAC"). The IAC has a function to report on the process of selection of directors and senior managers of the Iberdrola Group companies.

Purpose and values

The structure of the Company, and the Group, is set out in the 'Who we are' section of the Strategic Report. During 2022, the SPUK Board has taken into account the purpose and values of the Iberdrola Group and the Code of Ethics which are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Purpose'. These documents define and promote the purpose, values and culture of the Company and the Group.

Director responsibilities

The directors are fully aware of their duties under the Companies Act 2006, including those as set out in section 172 of the same. One of the primary responsibilities of the SPUK Board is to supervise the provision of common corporate services to the three Head of Business Sub-holding companies of the Group, which the Company directly and wholly owns, in accordance at all times with the provisions of all applicable legislation and regulations.

The Head of Business Sub-holding companies have their own boards of directors which have the necessary autonomy to carry out the day-to-day management and effective administration of their respective divisions, as well as responsibility for their ordinary control.

Further information on the administrative, management and supervisory bodies of the boards of the three Head of Business Sub-holding companies are described in the section below.

Opportunity and risk

The delivery of ScottishPower's strategy requires the Group to conduct business in a manner benefitting customers through balancing cost and risk while delivering shareholder value and protecting our performance and reputation by prudently managing the risk inherent in the business.

To maintain this strategic direction, we develop and implement risk management policies and procedures and promote a robust control environment at all levels of the organisation. Details of the applicable risk policies are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/'Corporate Governance'.

During 2022, the governance structure was supported by the risk policies of ScottishPower. Our business risk assessment team and independent Group risk management function supported the SPL Board in the execution of due diligence and risk management, as described in the 'Group principal risks and uncertainties' section of the Strategic Report.

Remuneration

The directors of the Company are subject to an annual evaluation of their performance in respect of their executive responsibilities as part of the performance management framework which is in place throughout ScottishPower.

There is no separate Remuneration Committee within ScottishPower. Instead, remuneration matters relevant to ScottishPower and the Company are dealt in accordance with the aforementioned performance management framework and reviewed by the Iberdrola, S.A. Remuneration Committee ("IRC"). The IRC has a function to report on the remuneration of directors and senior managers of the Iberdrola Group companies.

Stakeholders

The SPUK Board fully recognises that effective and meaningful engagement with stakeholders is key to promoting the success of the Company. The details of our key stakeholders, why they are important to the Company, and how we engage with our stakeholders are an integral part of our strategic goals which are described in the 'Our strategy' section in the Strategic Report.

The Group identifies and interacts with its stakeholders via its three business divisions. Please refer to the Energy Networks, Renewables, and Energy Retail and Wholesale sections of the Strategic Report for further information on these business divisions' respective engagement with their specific stakeholders. In particular, refer to the 'Engaging with stakeholders' section of the Strategic Report which sets out the SPUK Board's oversight of the consideration given to the Company's, and its group's, engagement with key stakeholders.

Administrative, management and supervisory bodies

SPL Board

The SPL Board comprised the Chairman, Jose Ignacio Sánchez Galán, and nine other directors at 31 December 2022. Jose Ignacio Sánchez Galán is also the Executive Chairman of Iberdrola.

The directors of the SPL Board were:

José Ignacio Sánchez Galán	Chairman, internal, non-executive director
Lord Kerr of Kinlochard GCMG	Vice-chairman, external, non-executive director (resigned as Vice-chairman and director 21 March 2022)
Professor Sir James McDonald	Vice-chairman, external, non-executive director (appointed Vice-chairman 21 March 2022)
Keith Anderson	CEO
Wendy Jacqueline Barnes	External, non-executive director
Iñigo Fernández de Mesa Vargas	External, non-executive director
Professor Dame Anne Glover	External, non-executive director (appointed 21 March 2022)
Rt Hon. Claire O'Neill	External, non-executive director (appointed 21 March 2022)
Daniel Alcaín López	Internal, non-executive director
Gerardo Codes Calatrava	Internal, non-executive director
José Sainz Armada	Internal, non-executive director

Rt Hon. Claire O'Neill resigned on 17 January 2023.

Meetings of the SPL Board were held on six occasions during the year under review. Attendance by the directors was as follows:

José Ignacio Sánchez Galán	Attended six meetings
Lord Kerr of Kinlochard GCMG	Attended two meetings
Professor Sir James McDonald	Attended six meetings
Keith Anderson	Attended six meetings
Wendy Jacqueline Barnes	Attended six meetings
Iñigo Fernández de Mesa Vargas	Attended six meetings
Professor Dame Anne Glover	Attended four meetings
Rt Hon. Claire O'Neill	Attended four meetings
Daniel Alcaín López	Attended six meetings
Gerardo Codes Calatrava	Attended six meetings
José Sainz Armada	Attended six meetings

Scottish Power Limited Audit and Compliance Committee ("SP ACC")

The SP ACC, a permanent internal body, has an informative and consultative role, without executive functions, with powers of information, assessment and presentation of proposals to the SPL Board within its scope of action, which is governed by the Articles of Association of the Company and by the terms of reference of the SP ACC.

The SP ACC's responsibilities include:

- monitoring the financial and non-financial reporting processes for ScottishPower;
- monitoring the effectiveness of ScottishPower's internal control, internal audit, compliance and risk management systems;
- monitoring the statutory audit of the Annual Report and Accounts of ScottishPower; and
- monitoring the independence of the external auditor and recommending to the SPL Board the appointment or reappointment of the auditor and the associated terms of engagement.

The SP ACC's terms of reference are published on the Corporate website under 'Corporate Governance'/'Governance and Sustainability System'/ 'Corporate Governance'.

Membership and attendance

The SP ACC met five times during the year under review. The members of the SP ACC and their attendance record are shown below:

Professor Sir James McDonald, Chairman (Chairman, external, non-executive director)	Resigned 20 March 2022	Attended one meeting
Iñigo Fernández de Mesa Vargas (Chairman, external, non-executive director)	Appointed Charman 21 March 2022	Attended five meetings
Wendy Jacqueline Barnes (External, non-executive director)	Appointed 21 March 2022	Attended four meetings
Rt Hon. Claire O'Neill (External, non-executive director)	Appointed 21 March 2022	Attended three meetings
Daniel Alcaín López (Internal, non-executive director)		Attended five meetings

Rt Hon. Claire O'Neill resigned on 17 January 2023.

Membership and attendance *continued*

In addition to the attendance set out above, the ScottishPower Control and Administration Director, Director of Internal Audit, the Compliance Director, and the Risk Director normally attend, by invitation, all meetings of the SP ACC. Other members of senior management are also invited to attend as appropriate. During the year under review, the external auditor attended (in part) four meetings of the SP ACC.

Matters considered by the SP ACC during 2022

The issues that the SP ACC specifically addressed are detailed in its report which is published on the Corporate website under 'Corporate Governance'/'Board of Directors'.

Significant financial statement reporting issues

In preparing the Annual Report and Accounts, there are a number of areas requiring management to apply judgement or a high degree of estimation. After discussion with management and the external auditor, the significant areas of judgement reviewed and considered by the SP ACC in relation to the 2022 Annual Report and Accounts, and how these were addressed, are set out in the table below.

SIGNIFICANT FINANCIAL JUDGEMENT FOR THE YEAR ENDED 31DECEMBER 2022	HOW THE SP ACC ADDRESSED THESE SIGNIFICANT FINANCIAL JUDGEMENTS
Retail energy onerous contracts Retail energy contracts have been reviewed to consider if any are onerous. In concluding this assessment, judgement has been applied to determine the expected future economic benefits of the contracts, the incremental costs and the expected customer life. Following the amendment to IAS 37, which was applied by the Group from 1 January 2022, the assessment included an allocation of other costs that relate directly to fulfilling a contract. Further details are included in Note 2B on page 73 and Note 3L on page 81.	The SP ACC were updated on the changing market environment and increases in energy costs that resulted in the requirement for an onerous contract provision to be recognised at 1 January 2022. The SP ACC reviewed the assumptions in the calculation and supported this judgement.
Accounting for derivative financial instruments associated with hedging the East Anglia Three offshore wind farm The Group has entered into derivatives to hedge transactions associated with the East Anglia Three offshore wind farm. At the time of hedging, the project had still to take the Final Investment Decision for the project to proceed. Judgement was applied to assess the highly probable nature that the project would proceed to allow hedge accounting to be applied in relation to these derivatives. Further details are included in Note 3 on page 74.	The SP ACC was updated on the derivatives transacted and the accounting applied to these derivatives. Following this review, the SP ACC supported this judgement.

SIGNIFICANT FINANCIAL ESTIMATION UNCERTAINTY FOR THE YEAR ENDED 31 DECEMBER 2022	HOW THE SP ACC ADDRESSED THESE SIGNIFICANT FINANCIAL ESTIMATIONS
Accounting for Group and parent company retirement benefit obligations The assumptions in relation to the cost to the Group of providing future post-retirement benefits are set after consultation with qualified actuaries and can have a material impact on the financial position of the Group. The costs, assets and liabilities of the Group's defined benefit schemes are regularly reviewed. Advice is taken from independent actuaries and other specialists within the Iberdrola Group on the IAS 19 valuation of the schemes including the complex assets. Further details are provided in Notes 3F and 9 on pages 77 and 95 respectively.	The SP ACC were updated on the combined schemes' valuation particularly in relation to the schemes' key assumptions and complexity of level 3 asset valuations. Following this review, the SP ACC supported this judgement.
Recognition of Energy Retail accrued ('unbilled') revenue Revenue from energy sales to retail customers includes estimates of the value of electricity and gas supplied between the most recent meter reading and the period end. This is based on estimates and assumptions in relation to the consumption and its valuation. Further details are provided in Note 22(a)(iii) on page 123.	The SP ACC reviewed the estimation processes and assumptions applied in determining the recognition of accrued ('unbilled') revenue and were updated on the impact on the financial statements. Following this review, the SP ACC supported this judgement.
Expected credit loss ("ECL") on Energy Retail receivables The recoverability of the Group's billed energy receivables in the Energy Retail division is a key area of estimation uncertainty given the risk of customer default. The level of the Group's aged debt is monitored with the allowance for ECL being based on assumptions derived from estimated future cash flows, the ageing profile of the debt, prior experience and an assessment of the current economic environment. Further details are provided in Note 3H1.2(d) on page 78 and Note 11(e)A3 on page 105.	The SP ACC considered the assumptions impacting the allowance for ECL and related charges and the processes for debt collection and calculating the ECL. In light of the current environment, there was a particular focus on energy market disruption and the impact this had, and will have in the future, in relation to the recoverability of retail receivables. Following this review, the SP ACC supported this judgement.

SIGNIFICANT FINANCIAL JUDGEMENT FOR THE YEAR ENDED 31DECEMBER 2022 *continued*	HOW THE SP ACC ADDRESSED THESE SIGNIFICANT FINANCIAL ESTIMATIONS
Accounting for decommissioning Decommissioning costs are subject to a degree of uncertainty as they are estimated at the reporting date and there is uncertainty in relation to the timing of when the decommissioning costs will be incurred. The sources of estimation relate to the value of costs at the reporting date and the discount rate applied. Further details are provided in Notes 3K and 18 on pages 81 and 119 respectively.	The SP ACC were updated on the valuation process and assumptions in relation to decommissioning costs. Following this review, the SP ACC supported these conclusions.

ScottishPower Management Committee ("SPMC")

The SPMC is a permanent internal body, which was established by the SPL Board to provide an informative and coordinating role for the activities of the Group. In accordance with the corporate governance arrangements of the Group and the separation of regulated activities, the SPMC does not exercise any executive function as a decision-making body. The SPMC meets weekly and receives regular information on the activities of the Group in order to support the corporate functions and lines of business in understanding the local, legal, regulatory and market specifics in the UK and in order to assist the ScottishPower CEO in the performance of his duties. The CEO defines the composition of the SPMC, having regard to the duties assigned thereto. Those persons that the CEO deems appropriate may also attend its meetings as invitees, either regularly or at a specific meeting.

Boards of the Head of Business Sub-holding companies

The boards of directors of SPENH ("SPENH Board"), SPREL ("SPREL Board") and SPRH ("SPRH Board") are responsible for the effective management of the Energy Networks, Renewables and Energy Retail and Wholesale business divisions respectively, in accordance with the strategy of ScottishPower. These boards meet regularly and review strategy, operational performance and risk issues on behalf of the respective businesses.

SPENH Board

The SPENH Board comprised the Chair Elena León Muñoz and five other directors as at 31 December 2022. The directors, and their attendance at SPENH Board meetings held during the period under review (five meetings), are shown below:

Elena León Muñoz (Chair, internal, non-executive director)	Attended five meetings
Frank Mitchell (CEO)	Attended three meetings (resigned 26 August 2022)
Vicky Kelsall (CEO)	Attended two meetings (appointed 26 August 2022)
Professor Dame Anne Glover (External, non-executive director)	Attended one meeting (resigned 20 March 2022)
Alison McGregor (External, non-executive director)	Attended five meetings
José Ignacio Sánchez-Galán García-Tabernero (Internal, non-executive director)	Attended two meetings (resigned 20 June 2022 and re-appointed 21 December 2022)
Suzanne Fox (External, non-executive director)	Attended five meetings (appointed 1 February 2022)
Mónica Grau Domene (Internal, non-executive director)	Attended five meetings

Suzanne Fox resigned on 31 January 2023. Rt Hon. Charles Hendry was appointed as an external, non-executive director on 31 January 2023.

The terms of reference of the SPENH Board together with rest of the Energy Networks Governance and Sustainability System approved by the SPENH Board, are published on www.spenergynetworks.co.uk under 'Corporate Governance'.

SPENH Audit and Compliance Committee ("SPENH ACC")

The SPENH ACC undertakes the role and function of the SP ACC as they relate to the regulated Energy Networks division. The relationship between the SP ACC and the SPENH ACC is governed in accordance with their respective terms of reference. The SPENH ACC's terms of reference are published at www.spenergynetworks.co.uk under 'Corporate Governance'.

The SPENH ACC met five times during the year under review. The members of the SPENH ACC and their attendance record are shown below:

Alison McGregor (Chair, external, non-executive director)	Attended five meetings
Suzanne Fox (External, non-executive director)	Attended four meetings (appointed 21 March 2022)
Professor Dame Anne Glover (External, non-executive director)	Attended one meeting (resigned 20 March 2022)
Mónica Grau Domene (Internal, non-executive director)	Attended five meetings

Suzanne Fox resigned on 31 January 2023. Rt Hon. Charles Hendry was appointed as an external, non-executive director on 31 January 2023.

SPREL Board

The SPREL Board comprised the Chairman, Xabier Viteri Solaun, and six other directors at 31 December 2022. The directors and their attendance at SPREL board meetings held during the period under review (five meetings) are shown below:

Xabier Viteri Solaun (Chairman, internal, non-executive director)	Attended five meetings
Lindsay McQuade (CEO)	Attended two meetings (resigned 10 June 2022)
Charles Jordan (CEO)	Attended two meetings (appointed 18 July 2022)
Dr. Bridget McConnell (External, non-executive director)	Attended three meetings (appointed 21 June 2022)
Nicola Connelly (Internal, non-executive director)	Attended five meetings
Charles Langan (Internal, non-executive director)	Attended five meetings
Álvaro Martínez Palacio (Internal, non-executive director)	Attended five meetings
Marion Shepherd Venman (Internal, non-executive director)	Attended five meetings

The terms of reference of the SPREL Board together with the rest of the Renewables Governance and Sustainability System approved by the SPREL Board, are published on www.scottishpowerrenewables.com under 'Corporate Governance'.

Membership and attendance *continued*

SPRH Board

The SPRH Board comprised the Chairman, Aitor Moso Raigoso, and four other directors at 31 December 2022. The directors and their attendance at SPRH Board meetings held during the period under review (five meetings) are shown below:

Aitor Moso Raigoso (Chairman, internal, non-executive, director)	Attended five meetings
Andrew Ward (CEO)	Attended five meetings
Nicola Connelly (Internal, non-executive director)	Attended five meetings
David Gracia Fabre (Internal, non-executive director)	Attended five meetings
Marion Shepherd Venman (Internal, non-executive director)	Attended five meetings

The terms of reference of the SPRH Board, together with the rest of the Energy Retail and Wholesale Governance and Sustainability System approved by the SPRH Board, are published on www.spretailholdings.com under 'Corporate Governance'.

Directors' indemnity

In terms of the Company's Articles of Association, a qualifying indemnity provision is in force for the benefit of all the directors of the Company and of associated companies and has been in force during the financial year. In addition, the Directors have been granted a qualifying third party indemnity provision, which continues in force.

Statement of directors' responsibilities in respect of the Annual Report and Accounts

The directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare the group financial statements in accordance with international accounting standards as adopted by the UK at the date of approval of these Accounts and which are mandatory for the financial year ended 31 December 2022 ("UK-adopted international accounting standards") and applicable law, and have elected to prepare the parent company financial statements in accordance with UK generally accepted accounting practice, Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") and applicable law.

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group's profit or loss for that period. In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, and reliable;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted international accounting standards;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that their financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Strategic Report and Directors' Report that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of the financial statements differs from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed refer to 'Board composition' section of Directors' report on page 51, confirms that to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with UK-adopted international accounting standards and FRS 101 respectively, give a true and fair view of the assets, liabilities, financial position and profit of the Group and Company; and
- the Strategic report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditor

Each of the directors in office at the date of this Annual Report and Accounts confirms that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

KPMG LLP were re-appointed as the auditor of the Company for the year ending 31 December 2023.

BY ORDER OF THE SPUK BOARD

Marion S Venman
Secretary
18 April 2023

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC

1. Our opinion is unmodified

We have audited the financial statements of Scottish Power UK plc ("the Company") for the year ended 31 December 2022 which comprise the consolidated and company statements of financial position, consolidated income statement, consolidated and company statements of comprehensive income, consolidated and company statements of changes in equity, consolidated and company statements of cash flows and the related notes, including the accounting policies in notes 3 and 34.

In our opinion:

— the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 December 2022 and of the Group's profit for the year then ended;

— the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;

— the parent Company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*;

— the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Scottish Power Audit and Compliance Committee ("SP ACC").

We were first appointed as auditor by the directors on 11 January 2018. The period of total uninterrupted engagement is for the six financial years ended 31 December 2022. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£34.5m (2021: £31m) 5.0% (2021: 4.6%) of normalised Group profit before tax	
Coverage	99% (2021: 99%) of Group profit before tax	
Key audit matters		**vs 2021**
Recurring risks	Valuation of IAS 19 provision for retirement benefit obligations	◀▶
	Valuation of certain unquoted assets in the Group's defined benefit pension schemes	▲
	Carrying value of Retail accrued ('unbilled') revenue	▲
	Recoverability of Retail billed trade receivables	▲

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (unchanged from 2021), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Relevant to Group and Parent company **Valuation of IAS 19 provision for retirement benefit obligations** (Liability of £3,188.1 million; 2021: Liability of £4,989.0 million) Refer to page 53 (SP ACC statement), page 68 (accounting policy) and Note 9 (financial disclosures).	**Subjective valuation** Relatively small changes in certain key actuarial assumptions underlying the valuation of the Group's defined benefit schemes, including the discount rate, inflation rate and mortality/ life expectancy of members, could materially impact the valuation of the liability. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the retirement benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. The financial statements (Note 9) disclose the sensitivity estimated by the Group.	Our procedures included: — **Methodology implementation:** Assessing, with the support of our own internal actuarial specialists, the methodology implemented by the Group for setting up the individual actuarial assumptions; — **Benchmarking assumptions:** Challenging, with the support of our actuarial specialists, the key assumptions applied, being the discount rate, RPI inflation and mortality/life expectancy against our independently derived assumptions using market data for each pension scheme; — **Assessing valuers' credentials:** Evaluating the competence, capability and objectivity of the Group's external actuary; and — **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the sensitivity of the liability to these assumptions. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** — We found the valuation of the IAS 19 provision for retirement benefit obligations to be acceptable (2021: acceptable).

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
Relevant to Group and Parent company **Valuation of certain unquoted assets in the Group's defined benefit pension schemes** (£923.9 million; 2021: £1,143.9 million). Refer to page 53 (SP ACC statement), page 77 (accounting policy) and Note 9 (financial disclosures).	**Subjective estimate** Certain combined defined benefit pension schemes' unquoted plan assets are subject to a higher degree of estimation uncertainty either due to their complexity (longevity swaps) or as a result of quoted prices being unavailable, such as: private debt funds, mezzanine funds, infrastructure assets, and longevity insurance contracts ('longevity swaps'). The effect of these matters is that, as part of our risk assessment, we determined that the asset valuations of certain unquoted investments have a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole and possibly many times that amount. There are unprecedented levels of uncertainty arising from global energy prices and availability, inflationary pressures and global interest rate rises. We consider these factors result in greater estimation uncertainty in relation to this key audit matter.	Our procedures included: — **Assessing valuers' credentials:** Evaluating the competence, capability and objectivity of the Group's external experts engaged to independently value the complex scheme assets; — **Our valuation expertise:** For the longevity swap, we engaged our own actuarial specialists to critically assess the valuation of the Group's longevity swaps by comparing against our independently derived valuation range; — **Assessing valuation methodology:** Challenging the valuation methodology used by the Group's external experts engaged (by the Trustees) to independently value the complex scheme assets, including assessing if the methodology is compliant with the relevant accounting standards. Inspecting the results of management's controls in place to evaluate the adequacy of the NAV price used in valuation of unquoted investments and to assess competency of the investment managers who are responsible for valuation; — **Tests of detail:** Performed substantive tests of detail on a sample of the schemes' assets to determine whether they had been appropriately valued based on information from suitably qualified and objective third parties. Additionally, we obtained direct confirmations from third parties to support the valuation of a sample of relevant unquoted investments; and — **Assessing transparency:** Considering the adequacy of the Group's disclosures in respect of the estimation uncertainty relating to more complex scheme assets. We performed the tests above rather than seeking to rely on any of the Group's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. **Our results** — We found the valuation of certain unquoted assets in the Group's defined benefit pension schemes to be acceptable (2021: acceptable).

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
Relevant to Group only **Carrying value of Retail accrued ('unbilled') revenue** (Gross carrying amount of £1,263.7 million; 2021: £655.6 million) (Provision: £20.9 million provision relating to energy volumes which have still to reach final settlement; 2021: £30.2 million) Refer to page 53 (SP ACC statement), pages 81 and 82 (accounting policy) and Note 11 (financial disclosures).	**Subjective estimate** The recognition of accrued ('unbilled') revenue is subject to a degree of estimation uncertainty as a result of the industry in which the Retail business operates. If actual meter readings are not available at the year-end, energy supplied to customers is estimated based on standard external industry settlement data or internal information where settlement data is not yet available. The degree of estimation uncertainty diminishes over time as more accurate data becomes available and customers are billed. However, judgement is inherent in the valuation of accrued ('unbilled') revenue as at the year-end. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Retail accrued ('unbilled') revenue has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. There are unprecedented levels of uncertainty arising from global energy prices and availability, inflationary pressures, and global interest rates. We consider these factors result in greater estimation uncertainty in relation to the key audit matter. The financial statements (Note 22 a (ii)) disclose the sensitivity estimated by the Group.	Our procedures included: — **Control design, observation and operation:** Testing the design, implementation and operating effectiveness of the Group's internal controls over: the algorithmic logic of the internal billing systems used to derive estimates of customer consumption, changes to pricing data, the validation of meter readings, the identification of billing exceptions and interfaces with the General Ledger; — **Our sector experience:** Evaluating the Group's key assumptions, in particular those relating to units of energy supplied, price per unit and the provision in relation to energy volumes which are yet to reach final settlement by comparing the Group's assumptions to external data, actual billing data and our own expectations based on our knowledge of the entity and experience of the industry in which it operates; — **Historical comparisons:** Evaluating the effectiveness of the Group's prior period estimation process by comparing the historical estimate to the actual outcome; — **Data comparisons:** We performed a comparison of volume data for the financial year to standard settlement data obtained directly from the external industry bodies; — **Tests of detail:** Comparing the Group's estimate as at the year-end to standard external industry settlement data and billing information available post year-end; — **Tests of detail:** Agreeing a sample of invoices issued to industrial and commercial customers to cash receipts; — **Reperformance:** Performing a recalculation of total Retail revenue (including accrued revenue) in the year based on external energy volume data and calculated prices per unit and comparing it to the actual amounts recognised in the income statement; and — **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation uncertainty associated with the valuation of accrued ('unbilled') revenue. **Our results** — We found the carrying value of Retail accrued ('unbilled') revenue to be acceptable (2021: acceptable).

2. Key audit matters: our assessment of risks of material misstatement *continued*

	The risk	Our response
Relevant to Group only **Recoverability of Retail billed trade receivables** (Gross carrying amount: £1,134.9 million; 2021: £783.1 million) (Loss allowance: £261.7 million; 2021: £202.6 million) Refer to page 53 (SP ACC statement), pages 81 and 82 (accounting policy) and Note 11 (financial disclosures).	**Subjective estimate** The Retail business carries significant exposure over the recoverability of customer receivables. This risk is heightened in the current year due to the circumstances created by the energy crisis in the UK which has caused significant price increases and market volatility. These factors are similar to those addressed in prior years, stemming from the pandemic which also created additional uncertainty over customers' ability to pay. An allowance for expected credit losses is provided based on an estimate of future cash flows. In arriving at this estimate, the Group considers the current ageing profile of debt, historical collections experience by payment plan, credit ratings for industrial and commercial (I&C) customers and an assessment of current economic conditions, which is in line with the approach required by IFRS 9. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of Retail billed trade receivables has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole. The financial statements (Note 11(e)A3) disclose the sensitivity estimated by the Group.	Our procedures included: — **Control design, observation and operation:** Testing the design, implementation and operating effectiveness of the Group's internal controls over the relevant data elements used in the estimation of the loss allowance and the process for reconciling cash receipts from retail customers to the relevant General Ledger; — **Our sector experience:** Benchmarking methodology, including how the current ageing profile of debt, historical collections experience by payment plan, external credit ratings for industrial and commercial customers and the assessment of current economic conditions are incorporated, to industry practice and our expectations based on our knowledge of the entity and experience of the industry in which it operates; — **Historical comparisons:** Evaluating the effectiveness of the Group's estimation process by comparing original estimates to the actual outcome over several periods; — **Personnel interviews:** Performing specific inquiries with financial and non-financial personnel to assess whether the Group's judgements and estimates reflect operational risk; — **Reperformance:** Assessing whether the loss allowance, recognised as at the year-end, was accurately and consistently calculated in accordance with the Group's methodology; — **Tests of detail:** Inquiring and inspecting, for a sample of trade receivables, the level of cash collected for industrial and commercial customers, subsequent to the year-end; and — **Assessing transparency:** Assessing the adequacy of the Group's disclosures about the degree of estimation involved in arriving at the allowance for expected credit loss. **Our results** — We found the carrying amount for Retail billed trade receivables to be acceptable (2021: acceptable).

3. Our application of Group materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £34.5 million (2021: £31 million), determined with reference to a benchmark of Group profit before tax, normalised by averaging over the last five years due to fluctuations in the business cycle, of £694.1 million (2021: £672.7 million) of which it represents 5.0% (2021: 4.6%).

Materiality for the parent company financial statements was set with reference to a benchmark of net assets but capped at £33 million (2021: £30.5 million) due to the level of Group materiality.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

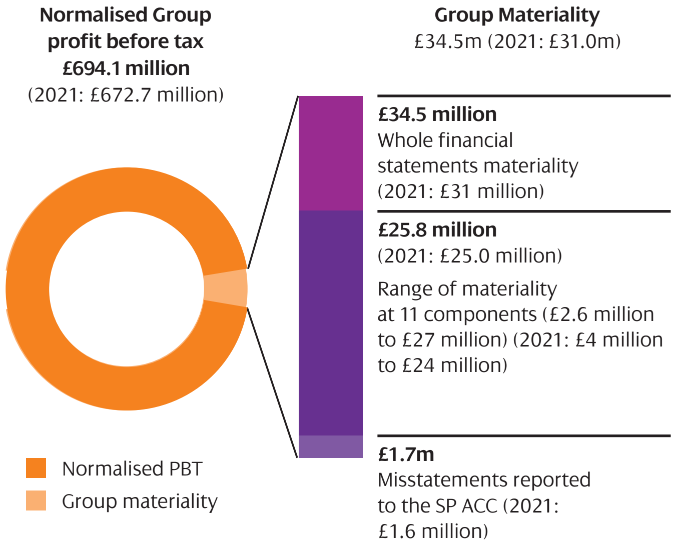
Performance materiality was set at 75% (2021: 75%) of materiality for the financial statements as a whole, which equates to £25.8 million (2021: £23.3 million) for the group and £24.7 million (2021: £22.8 million) for the parent company. We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the SP ACC any corrected or uncorrected identified misstatements exceeding £1.7 million (2021: £1.6 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

8 (2021: 9) of the Group's 50 (2021: 30) components were subject to full scope audit procedures and 3 (2021: 1) components were subject to audit of account balance (PP&E only) performed in the UK by the Group audit team. These components, together with balances audited as part of the consolidation (such as goodwill and intangible assets) represented 100% (2021: 100%) of Group revenue, 99% (2021: 99%) of profit before tax and 94% (2021: 99%) of total assets. Of the 94%, 93% (2021: 98%) of total assets were subject to full scope audit and 1% (2021: 1%) were subject to audit of PP&E only.

For the residual components, we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

We were able to rely upon the Group's internal control over financial reporting in several areas of our audit, where our controls testing supported this approach, which enabled us to reduce the scope of our substantive audit work; in the other areas the scope of the audit work performed was fully substantive.



4. Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were the impact on the Retail division of increased wholesale energy prices, an increase in customer debt due to slower cash collections, the extent of permitted cost recovery under the domestic price cap, potential prepayment meter restrictions and a reduction in customer demand.

We also considered less predictable but realistic second order impacts, such as volume and price decreases along with widespread storm related costs in the Networks division and reductions in wind power prices and volumes in the Renewables division.

We considered whether these risks could plausibly affect the liquidity in the going concern period by assessing the directors' sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of severe, but plausible adverse effects that could arise from these risks individually and collectively.

Our procedures also included critically assessing assumptions in the directors' base and downside scenarios relevant to liquidity, in particular increased capital expenditure in the Renewables division and reductions in the forward price projections for Renewables' generation output.

We considered whether the going concern disclosure in notes 2A3 and 34B to the financial statements gives a full and accurate description of the directors' assessment of going concern, including the identified risks and dependencies.

Our conclusions based on this work:

— we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;

— we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and

— we found the going concern disclosure in notes 2A3 and 34B to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

— Enquiring of directors, the internal audit function, the group's legal function and the compliance function and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.

— Reading Board and Audit and Compliance Committee and minutes.

— Using analytical procedures to identify any unusual or unexpected relationships.

— Consultation with our own forensic professional regarding the identified potential fraud risks. This involved discussion between the forensic professional and the senior members of the engagement team.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at the Group level and a request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group level.

As required by auditing standards, and taking into account possible pressures to meet profit targets, and our overall knowledge of the control environment, we performed procedures to address the risk of management override of controls, in particular the risk that Group and component management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as the recognition of defined benefit pension assumptions, defined benefit pension asset valuations, valuation of Retail accrued revenue and valuation of Retail billed debt. On this audit we do not believe there is a fraud risk related to revenue recognition because, with the exception of the accrued revenue, the Group's revenues consist entirely of routine, non-complex transactions which are subject to systematic processing and do not require significant judgements.

We also identified a fraud risk related to the accounting for the domestic 'Energy Price Guarantee' mechanism applicable to the Energy Retail business and the determination of the amounts payable to or receivable from the government in connection with this scheme.

We performed procedures including:

— Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management and those posted to unusual accounts, including additional unexpected combinations associated with the energy retail discount accounts. Testing the design, implementation and operating effectiveness of internal controls related to quarterly balance sheet reconciliations for the Energy Price Guarantee receivables balance, as well as performing tests of details over the year end balance sheet reconciliation.

— Assessing significant accounting estimates for bias.

KPMG

5. Fraud and breaches of laws and regulations – ability to detect *continued*

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including form and content) including related companies legislation, distributable profits legislation, pensions legislation in respect of defined benefit pension schemes, tax legislation and regulatory requirements governing certain revenue streams and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group's licences to operate. We identified the following areas as those most likely to have such an effect: GDPR compliance, health and safety legislation, fraud, corruption and bribery legislation, employment and social security legislation including minimum wage and pension auto-enrolment, environmental protection legislation, Ofgem regulations and distance selling regulations, recognising the regulated nature of the Group's activities. This includes the Ofgem related matters disclosed in Note 30, for which we assessed disclosures against our understanding from inspection of relevant correspondence between the group, and Ofgem. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the Audit and Compliance Committee other matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge.

Based solely on that work we have not identified material misstatements in the other information.

Strategic report and directors' report

Based solely on our work on the other information:

— we have not identified material misstatements in the strategic report and the directors' report;

— in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

— in our opinion those reports have been prepared in accordance with the Companies Act 2006.

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

— adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

— the parent Company financial statements are not in agreement with the accounting records and returns; or

— certain disclosures of directors' remuneration specified by law are not made; or

— we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 55, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH POWER UK PLC *continued*

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Williamson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

319 St. Vincent Street
Glasgow
G2 5AS
18 April 2023

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
at 31 December 2022

	Notes	2022 £m	2021 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets		**527.9**	588.8
Goodwill	6	364.6	364.6
Other intangible assets	6	163.3	224.2
Property, plant and equipment		**15,227.6**	15,027.1
Property, plant and equipment in use	7	13,910.3	13,876.8
Property, plant and equipment in the course of construction	7	1,317.3	1,150.3
Right-of-use assets	8	**459.6**	455.3
Pensions asset	9	**341.9**	291.7
Non-current financial assets		**237.6**	240.5
Investments in joint ventures	10	8.7	7.7
Other investments	11	0.2	0.2
Derivative financial instruments	11	228.7	232.6
Non-current trade and other receivables	12	**16.4**	29.7
TOTAL NON-CURRENT ASSETS		**16,811.0**	16,633.1
CURRENT ASSETS			
Inventories	13	**642.2**	954.8
Current trade and other receivables	12	**3,286.7**	2,558.4
Current tax asset		**78.8**	67.7
Current financial assets		**428.5**	1,290.2
Derivative financial instruments	11	428.5	1,290.2
Cash	11	**869.1**	182.9
TOTAL CURRENT ASSETS		**5,305.3**	5,054.0
TOTAL ASSETS		**22,116.3**	21,687.1

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF FINANCIAL POSITION *continued*
at 31 December 2022

	Notes	2022 £m	2021 £m
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent	14	**6,031.9**	7,891.9
Share capital	14, 15	3,551.7	3,551.7
Share premium	14	398.2	398.2
Hedge reserve	14	(749.8)	793.3
Other reserves	14	420.5	420.5
Retained earnings	14	2,411.3	2,728.2
Of non-controlling interests	16	**1,035.2**	1,081.7
TOTAL EQUITY		**7,067.1**	8,973.6
NON-CURRENT LIABILITIES			
Non-current deferred income	17	**1,425.5**	1,397.7
Non-current provisions		**357.6**	548.3
Provisions for retirement benefit obligations	9	101.9	99.5
Other provisions	18	255.7	448.8
Bank borrowings and other non-current financial liabilities		**4,489.5**	4,773.5
Loans and other borrowings	19	4,147.8	4,561.0
Derivative financial instruments	11	341.7	212.5
Non-current lease liabilities	8	**487.8**	477.5
Non-current trade and other payables	20	**10.4**	8.8
Non-current income tax liabilities		**6.2**	6.2
Deferred tax liabilities	21	**1,354.8**	1,650.0
TOTAL NON-CURRENT LIABILITIES		**8,131.8**	8,862.0
CURRENT LIABILITIES			
Current deferred income	17	**57.2**	–
Current provisions		**336.4**	350.2
Other provisions	18	336.4	350.2
Bank borrowings and other current financial liabilities		**4,206.6**	1,563.7
Current financial liabilities	11	23.8	34.8
Loans and other borrowings	19	2,805.8	1,021.8
Derivative financial instruments	11	1,377.0	507.1
Current lease liabilities	8	**36.0**	33.2
Current trade and other payables	20	**2,281.2**	1,904.4
TOTAL CURRENT LIABILITIES		**6,917.4**	3,851.5
TOTAL LIABILITIES		**15,049.2**	12,713.5
TOTAL EQUITY AND LIABILITIES		**22,116.3**	21,687.1

Authorised for issue by the SPUK Board and signed on its behalf on 18 April 2023.

Nicola Connelly
Director

The accompanying Notes 1 to 33 and Appendix 1 are an integral part of the Consolidated statement of financial position at 31 December 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED INCOME STATEMENT
for the year ended 31 December 2022

	Notes	2022 £m	2021 £m
Revenue	22	8,434.9	5,349.7
Procurements		(5,809.2)	(2,842.2)
GROSS MARGIN		**2,625.7**	2,507.5
Net staff costs	23	(259.6)	(191.8)
External services		(564.9)	(576.1)
Other operating results		105.8	83.4
Net operating costs		**(718.7)**	(684.5)
Taxes other than income tax	24	**(198.1)**	(231.8)
GROSS OPERATING PROFIT		**1,708.9**	1,591.2
Net expected credit losses on trade and other receivables		(86.5)	(108.0)
Depreciation and amortisation charge, allowances and provisions	25	(787.9)	(762.8)
OPERATING PROFIT		**834.5**	720.4
Result of companies accounted for using the equity method	10	1.3	–
Finance income	26	108.8	14.8
Finance costs	27	(243.4)	(184.6)
PROFIT BEFORE TAX		**701.2**	550.6
Income tax	28	(141.4)	(448.6)
NET PROFIT FOR THE YEAR		**559.8**	102.0
Non-controlling interests	16	(72.8)	(47.5)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		**487.0**	54.5

All results relate to continuing operations.

The accompanying Notes 1 to 33 and Appendix 1 are an integral part of the Consolidated income statement for the year ended 31 December 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2022

	Note	2022 £m	2021 £m
NET PROFIT FOR THE YEAR		**559.8**	102.0
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently reclassified to the Income statement:			
Cash flow hedges:			
Change in the value of cash flow hedges	14	**(1,959.1)**	793.0
Tax relating to cash flow hedges	14	**406.9**	(157.1)
		(1,552.2)	635.9
Items that will not be reclassified to the Income statement:			
Retirement benefits:			
Movements in retirement benefits	14	**(49.5)**	586.0
Tax relating to movements in retirement benefits	14	**9.2**	(126.4)
Cash flow hedges:			
Change in the value of cash flow hedges	14	**11.8**	(1.6)
Tax relating to cash flow hedges	14	**(2.8)**	0.3
		(31.3)	458.3
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1,583.5)**	1,094.2
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,023.7)**	1,196.2
Total comprehensive income for the year attributable to equity holder of the parent		**(1,096.4)**	1,149.7
Total comprehensive income for the year attributable to non-controlling interests		**72.7**	46.5
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(1,023.7)**	1,196.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Attributable to equity holder of the parent							
	Share capital £m	Share premium £m	Hedge reserve £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2021	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2	1,091.0	7,833.2
Total comprehensive income for the year	–	–	635.6	–	514.1	1,149.7	46.5	1,196.2
Dividends	–	–	–	–	–	–	(55.8)	(55.8)
At 31 December 2021	3,551.7	398.2	793.3	420.5	2,728.2	7,891.9	1,081.7	8,973.6
Adjustments due to impact of IAS 37 amendments (refer to Note 2B(a))	–	–	–	–	(48.6)	(48.6)	–	(48.6)
Adjusted balance at 1 January 2022	3,551.7	398.2	793.3	420.5	2,679.6	7,843.3	1,081.7	8,925.0
Total comprehensive income for the year	–	–	(1,543.1)	–	446.7	(1,096.4)	72.7	(1,023.7)
Dividends	–	–	–	–	(715.0)	(715.0)	(119.2)	(834.2)
At 31 December 2022	**3,551.7**	**398.2**	**(749.8)**	**420.5**	**2,411.3**	**6,031.9**	**1,035.2**	**7,067.1**

The accompanying Notes 1 to 33 and Appendix 1 are an integral part of the Consolidated statement of comprehensive income and the Consolidated statement of changes in equity for the year ended 31 December 2022.

SCOTTISH POWER UK PLC
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2022

	2022 £m	2021 £m
Cash flows from operating activities		
Profit before tax	**701.2**	550.6
Adjustments for:		
Depreciation, amortisation and impairment	**774.7**	752.5
Research and development expenditure credit	**(0.4)**	–
Change in provisions	**373.6**	467.3
Result of companies accounted for using the equity method	**(1.3)**	–
Transfer of assets from customers	**(45.3)**	(43.9)
Net finance income and costs	**134.6**	169.8
Net losses on disposal/write-off non-current assets	**11.2**	7.5
Gain on disposal of subsidiary	**(8.5)**	–
Movement in retirement benefits	**(92.2)**	(171.3)
Net fair value (gains)/losses on operating derivatives (including early settlement)	**(21.2)**	211.9
Movement in deferred income	**(0.4)**	–
Changes in working capital:		
Change in trade and other receivables	**(853.2)**	(133.2)
Change in inventories	**(111.3)**	(444.5)
Change in trade and other payables	**313.7**	743.9
Provisions paid	**(14.8)**	(5.8)
Assets received from from customers (deferred income)	**114.0**	101.9
Other deferred income received	**10.7**	–
Income taxes paid	**(22.6)**	(93.4)
Net cash flows from operating activities (i)	**1,262.5**	2,113.3
Cash flows from investing activities		
Interest received	**15.2**	17.8
Investments in intangible assets	**(55.5)**	(115.4)
Investments in property, plant and equipment	**(966.1)**	(908.9)
Movements in investments in joint ventures	**0.3**	–
Proceeds from disposal of property, plant and equipment	**3.2**	2.6
Proceeds from disposal of subsidiary	**9.0**	–
Increase in amounts due from Iberdrola Group companies – current loans receivable	**(47.3)**	(346.1)
Net cash flows from investing activities (ii)	**(1,041.2)**	(1,350.0)
Cash flows from financing activities		
Increase/(decrease) in amounts due to Iberdrola Group companies – current loans payable	**1,518.8**	(1,417.9)
Increase in amounts due to Iberdrola Group companies – non-current loans payable	**–**	1,250.0
Dividends paid to the Company's equity holder	**(715.0)**	–
Dividends paid to non-controlling interest	**(119.2)**	(55.8)
Interest paid	**(164.4)**	(149.1)
Interest paid on lease liabilities	**(18.4)**	(15.2)
Repayments of borrowing and other financial liabilities	**(11.0)**	(308.7)
Payments of lease liabilities	**(25.9)**	(23.8)
Net cash flows from financing activities (iii)	**464.9**	(720.5)
Net increase in cash and cash equivalents (i)+(ii)+(iii)	**686.2**	42.8
Cash and cash equivalents at beginning of year	**182.9**	140.1
Cash and cash equivalents at end of year	**869.1**	182.9
Cash and cash equivalents at end of year comprises:		
Consolidated statement of financial position cash (including restricted cash – refer to Note 11(a))	**869.1**	182.9
Consolidated statement of cash flows cash and cash equivalents	**869.1**	182.9

The accompanying Notes 1 to 33 and Appendix 1 are an integral part of the Consolidated statement of cash flows for the year ended 31 December 2022.

1 GROUP ACTIVITIES

A COMPANY AND GROUP INFORMATION

Scottish Power UK plc (registered company number SC117120), a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company's immediate parent company, SPL, is the holding company of the ScottishPower Group.

The Consolidated financial statements for the year ended 31 December 2022 comprise those of the Company, its subsidiaries and joint arrangements (together referred to as "the Group"). The Company financial statements present information about the Company as a separate entity and not about the Group (refer to pages 129 to 143).

B GROUP PRINCIPAL ACTIVITIES

The Group provides electricity transmission and distribution services in the UK and conducts renewable energy activities across the UK and Republic of Ireland. It also supplies gas and electricity to homes and businesses principally across the UK, operates gas storage facilities and undertakes associated energy management activities in the UK.

As described in Note 5, in line with IFRS 8 'Operating Segments' ("IFRS 8"), the Group defines its operating segments based on a combination of factors, principally differences in products and services and the regulatory environment in which the business operates. The Group reported three principal business divisions during the year: Energy Networks, Renewables, and Energy Retail and Wholesale.

Energy Networks

The transmission and distribution businesses within ScottishPower's authorised area in the Central Belt and South of Scotland, and the distribution business of SPM operating in Cheshire, Merseyside, North Shropshire and North Wales.

Renewables

The origination, development, construction and operation of renewable energy generation assets, and the generation and sale of primarily electricity and ROCs from those assets.

Energy Retail and Wholesale

The sale of electricity and gas to industrial and domestic customers, together with related billing and collection activities and the sale of electricity to market participants in the UK. The division also manages the Group's exposure to the UK wholesale electricity and gas markets for Energy Retail and Renewables, and the optimisation of gas storage.

2 BASIS OF PREPARATION

A BASIS OF PREPARATION OF THE CONSOLIDATED ACCOUNTS

The Company is required by law to prepare consolidated accounts for the Group and deliver them to the Registrar of Companies. The Consolidated accounts have been prepared in accordance with UK-adopted international accounting standards. The Consolidated accounts are prepared in accordance with the accounting policies set out in Note 3. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Consolidated accounts are prepared on the historical cost basis apart from certain financial assets and liabilities measured at fair value.

A1 BASIS OF CONSOLIDATION

The Consolidated accounts incorporate the Accounts of the Company and its subsidiaries and joint arrangements to 31 December each year. Subsidiaries are those entities which the Group has the right to control, generally where a shareholding confers more than half of the voting rights.

On acquisition of subsidiaries deemed to be business combinations, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. The cost of an acquisition is measured at the fair value of any assets given, equity instruments issued, and liabilities incurred or assumed at the date of exchange. Any excess of that cost over the fair value of the identifiable net assets acquired is recognised as goodwill. If the fair value of the net assets acquired is in excess of that cost, the Group reassesses whether it has correctly identified all the assets acquired and all the liabilities assumed, and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If this still results in an excess of the fair value of the net assets acquired over the cost of acquisition, then the gain is recognised in the Consolidated income statement. For subsidiaries acquired which are deemed to be asset acquisitions, the cost is allocated to the individual identifiable assets and liabilities on the basis of their relative fair values at the date of purchase.

The interest of non-controlling shareholders is initially stated at their proportion of the fair value of the assets and liabilities recognised. Changes in the Group's ownership interest in a subsidiary, not resulting in the Group losing control, are treated as equity transactions.

In accordance with the exemption permitted by IFRS 1 'First-time Adoption of International Financial Reporting Standards' ("IFRS 1"), business combinations accounted for prior to the Group's date of transition to international accounting standards ("IAS") on 1 April 2004 have not been restated to comply with IFRS 3 'Business Combinations' ("IFRS 3").

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the effective date of acquisition or disposal respectively.

For the Group, intra-group transfers of subsidiaries within the Iberdrola Group, but outwith the Scottish Power UK plc Group, are deemed to be business combinations under common control. These transactions are accounted for using the pooling of interests method. The results for the subsidiaries transferred are included in the Consolidated income statement from the effective date of acquisition or disposal. The net assets incorporated/disposed of at the date of acquisition/disposal respectively, reflect the book value of each subsidiary included in the Iberdrola consolidated financial statements, the highest entity that has common control for which consolidated IAS financial statements are prepared.

Joint venture investments are accounted for using the equity method and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The Consolidated financial statements include the Group's share of the total comprehensive income and equity movements of equity-accounted investees, from the date that joint control commences until the date that ceases. When the Group's share of losses exceeds its interest in an equity-accounted investee, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an investee. Where the Group is a party to a joint operation, the Consolidated financial statements include the Group's share of the joint operations' assets, liabilities, profit or loss and other comprehensive income, on a line-by-line basis. Refer to Notes 3G and 10 for further details.

2 BASIS OF PREPARATION *continued*

A BASIS OF PREPARATION OF THE CONSOLIDATED ACCOUNTS *continued*

A2 CHANGES IN PRESENTATION AND ESTIMATES

A2.1 CHANGE IN PRESENTATION – DEFERRED INCOME

The Group receives contributions from its customers for the construction of grid connection facilities or is assigned assets used to connect those customers to a network. Both the cash and the fair value of the facilities received are credited to Deferred income in the Consolidated statement of financial position as this is a contract liability. In prior years, the full liability was classified as non-current, however, during the year, the directors have reviewed the classification of such balances and concluded that the value of deferred income which is expected to be released to the Consolidated income statement and the Consolidated statement of comprehensive income within the next year should be recorded within current liabilities. The effect of this change has not been reflected as a restatement to prior year deferred income and current liabilities as the directors do not consider this to have had a material impact on those line items nor the net profit for the year shown in the Consolidated income statement and Consolidated statement of comprehensive income, nor the net assets and net current asset positions shown on the Consolidated statement of financial position for the prior year ended 31 December 2021. Refer to Note 17 for further detail.

A2.2 CHANGE IN PRESENTATION – OFFSHORE TRANSMISSION ASSETS

The Group constructs and operates offshore wind farms. These require an offshore transmission asset to connect them to the onshore grid. As a legislative requirement, the Group is not permitted to own and operate the offshore transmission assets which it constructs alongside its offshore wind farms, and consequently they must be sold to a third party operator following their completion and an initial allowed operational period. In prior years, the initial spend on such assets was recorded within Property, plant and equipment in the course of construction as part of the wider wind farm project asset, but reclassified to Inventories when the project was deemed highly probable to be constructed. During the year, the directors have reviewed this treatment and concluded that any spend on offshore transmission assets should be recorded within Inventories from the start of the project. This change has been applied effective 1 January 2022 and £310.6 million of offshore transmission asset expenditure has been included in Inventories in the current year. Of this expenditure, £80.1 million had been capitalised in Property, plant and equipment in the prior year. This has not been reflected as a restatement to prior year Property, plant and equipment in the course of construction or Inventories as the directors do not consider this to have had a material impact on those line items nor the net asset position in the Consolidated statement of financial position nor has it had any impact on net profit shown in the Consolidated income statement as at/for the year ended 31 December 2021.

A2.3 CHANGE IN WIND FARM ASSET USEFUL LIVES

During 2022, the Group performed a review of the useful lives of its wind farm assets; in particular to assess the impact of any associated land leases which, at their maximum terms, will expire before the end of the useful lives of the assets. As a result of this review, the Group has identified an error in a small proportion of its wind farm assets and shortened the useful lives of these assets to align with the end dates of the relating limiting leases. The decommissioning provisions relating to the impacted sites have been recalculated based on the updated present value of the expenditure expected to be required to settle the obligations. For wind farms with multiple land leases, the lease terms of certain other leases have also been aligned with the shortest lease term for each site. The impact of these changes has been to increase the depreciation charge of the Group for the current year by £12.7 million, to increase the decommissioning provision balance by £14.2 million and increase in the cost of the associated property, plant and equipment by £14.2 million. The Group's right-of-use assets and lease liabilities have both reduced by £7.1 million. These changes have been applied from 1 July 2022, but have not been reflected as a restatement to prior year figures as the directors do not consider these to have had a material impact on the Depreciation and amortisation charge, allowances and provisions and net profit for the year shown in the Consolidated income statement and the net profit shown in the Consolidated statement of comprehensive income, nor the Right-of-use assets, Non-current lease liabilities, Non-current other provisions, net current assets and net assets position shown on the Consolidated statement of financial position for the prior year ended 31 December 2021.

A3 GOING CONCERN

The Group's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 23. Details of the risks and uncertainties faced by the Group, and how these are addressed, are set out in the Strategic report on pages 24 to 27.

The Consolidated statement of financial position presents net current liabilities of £1,612.1 million as at 31 December 2022. The Consolidated financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Scottish Power UK plc Group is a significant component of Iberdrola, one of the world's largest integrated utilities. The Group participates in a UK treasury function operated by the Company. The UK treasury function works closely with Iberdrola to manage the Group's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola through the global treasury function.

The Group continues to monitor the situation in Ukraine and continually assess the risk this presents for energy prices. The Energy Retail and Wholesale division continues to hedge the commodity price exposure to minimise the impact from increased wholesale prices. Due to the other core activities of the Group in Energy Networks and Renewables, the direct effect on the total cash flows and liquidity is expected to be limited.

For the purposes of the directors' assessment of the Group's going concern position, and to satisfy them of the Group's ability to pay its liabilities as they fall due, the directors have prepared a Consolidated cash flow forecast to December 2024 on the basis of the ongoing liquidity of the UK wholesale energy and gas markets, including the cash flow of longer-term strategies and projects. The cash flow forecast takes account of severe but plausible downsides, including reductions in the Renewables price curve and in Renewables production, decreases in Energy Retail demand, and reductions in the collectability of retail customer debt.

The cash flow forecast indicates that the Group's existing resources and committed facilities, including £2.2 billion of undrawn committed revolving credit facilities maturing in 2025 at the date of approval of these financial statements (refer to Note 19(a)(xv)), are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least one year from the date of approval of the Consolidated financial statements and therefore, have prepared the aforementioned financial statements on a going concern basis.

2 BASIS OF PREPARATION *continued*

B IMPACT OF NEW IAS

As noted above, these Accounts have been prepared in accordance with UK-adopted IAS. In preparing these Accounts, the Group has applied all relevant standards and interpretations that have been adopted by the UK as of the date of approval of these Accounts and that are mandatory for the financial year ended 31 December 2022.

For the year ended 31 December 2022, the Group has applied the following amendments for the first time:

Standard	Notes
• Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract'.	(a), (b)
• Amendments to IFRS 3 'Business Combinations: Reference to the Conceptual Framework'	(b)
• Amendments to IAS 16 'Property, Plant and Equipment: Proceeds before Intended Use'	(b)
• Annual Improvements to IFRS Standards 2018-2020 Cycle	(b)

(a) The amendments to IAS 37 were applied by the Group effective 1 January 2022. Following the amendments, the costs to be considered to fulfil a contract when assessing if a contract is onerous or not, is defined as being both the incremental costs and an allocation of other costs that relate directly to fulfilling a contract. Upon application of this amendment, certain contracts with retail customers defaulting on to the standard variable tariff were considered to be onerous as the unavoidable costs of meeting the obligations under the contracts exceeded the economic benefits expected to be received from them. As at 1 January 2022, a provision for £60.0 million, the related current tax asset of £11.4 million and a reduction in retained earnings of £48.6 million were recognised to reflect this in line with the transitional provisions of this amendment, therefore, comparative information has not been restated. This provision was fully utilised during the year to 31 December 2022 (refer to Note 18).

(b) The application of these amendments has not had a material impact on the Group's accounting policies, financial position or performance.

The following new standards and amendments to standards have been issued by the International Accounting Standards Board ("IASB") but have an effective date after the date of these financial statements or have not been endorsed by the UK, and thus have not yet been implemented by the Group:

Standard	Notes	IASB effective date (for periods commencing on or after)	Planned date of application by the Group
• IFRS 17 'Insurance Contracts' including 'Amendments to IFRS 17'	(a)	1 January 2023	1 January 2023
• Amendments to IAS 1 'Presentation of Financial Statements' and IFRS Practice Statement 2: 'Disclosure of Accounting Policies'	(b)	1 January 2023	1 January 2023
• Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates'	(b)	1 January 2023	1 January 2023
• Amendments to IAS 12 'Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction'	(b)	1 January 2023	1 January 2023
• Amendments to IFRS 16 'Leases: Lease Liability in a Sale and Leaseback'	(b), (c)	1 January 2024	1 January 2024
• Amendments to IAS 1 'Presentation of Financial Statements: Classification of Liabilities as Current or Non-current' and 'Deferral of Effective Date' and 'Non-current Liabilities with Covenants'	(b), (c)	1 January 2024	1 January 2024
• IFRS 14 'Regulatory Deferral Accounts'	(b), (c), (d)	1 January 2016	To be decided
• Amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures': 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'	(b), (c), (e)	Deferred indefinitely	To be decided

(a) The Group is currently analysing the impact of implementing IFRS 17 'Insurance Contracts' which is effective for the Group as from 1 January 2023. The Group has tentatively concluded that contracts such as breakdown contracts (such as boiler and appliance cover contracts) and product warranties are generally not within the scope of the standard or do not represent a significant insurance risk. Performance guarantees issued are being assessed to determine the significance of the insurance risk transferred. The Group does not have any financial guarantees (including parent company and inter-group guarantees) that were in scope of IFRS 4 'Insurance Contracts.' The Group has irrevocably elected not to account for financial guarantees issued since 1 January 2023 under IFRS 17 but will instead account for them under IFRS 9 'Financial Instruments' ("IFRS 9"), IFRS 7 'Financial Instruments: Disclosures' ("IFRS 7") and IAS 32 'Financial Instruments: Presentation' ("IAS 32"). Any contracts deemed to be in scope of IFRS 17 will be accounted for in line with the modified retrospective approach outlined by the standard. This analysis will continue during 2023.

(b) The future application of this pronouncement is not expected to have a material impact on the Group's accounting policies, financial position or performance.

(c) This pronouncement has not yet been endorsed by the UK.

(d) The endorsement process of this interim standard has not been launched. On 29 January 2021, the IASB issued an exposure draft for a proposed replacement standard.

(e) The IASB set the effective date of this pronouncement as for periods commencing on or after 1 January 2016. However, in December 2015, the IASB postponed the effective date indefinitely pending the outcome of its research project on the equity method of accounting. The endorsement process for this pronouncement has not been launched. The effective date will be amended in due course.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES

In determining and applying accounting policies, judgement and estimation is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the financial statements. Management considers significant judgements and estimates to be those with a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year due to the inherent uncertainty regarding estimates and assumptions.

SIGNIFICANT JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Retail energy onerous contracts

The assessment of contracts to determine if they are onerous or not, is subject to a degree of judgement. The assessment includes consideration of both the unavoidable costs of meeting the contract and the economic benefits expected to be received under it. Judgement was applied to assess the future revenues, incremental costs (including the cost of energy committed where relevant) and the expected customer life (i.e. the contract period). While these assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the onerous contract recorded within the next twelve months. (Refer to Note 3L).

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

Derivative financial instruments – East Anglia Three project – inflation swaps

During the year, the Group entered into CPI inflation swaps to reduce earnings volatility associated with the CPI-indexed income which will be received under the EA3 CfD contract secured during July 2022. These hedging transactions were entered into in advance of the Final Investment Decision to construct the EA3 wind farm and so judgement was applied to assess whether it was highly probable that the project would proceed, and therefore whether the cash flows under the CfD arrangement would occur (being the hedged item), to allow hedge accounting to be applied. If the assessment had not demonstrated high probability, the effect would have been to reclassify a loss of £53.9 million from Other comprehensive income to the Income statement, along with the associated tax charge of £10.2 million.

In line with IFRS 9, a forecast transaction can only be a hedged item where it is highly probable that the transaction will occur. The assessment of whether the hedged item was highly probable included consideration of planning consents for the construction of the wind farm; agreements in place for connecting the wind farm to the UK electricity grid; the award of CfD contracts; the progress made in negotiations with contractors in relation to the construction of the wind farm; and the forecast output of the wind farm. After considering these factors at both inception and 31 December 2022, it was deemed that it was highly probable that the EA3 project would proceed and so highly probable that the underlying forecast transaction would occur allowing hedge accounting to be applied.

While the judgement of highly probable is believed to be appropriate, a change in this judgement could materially impact the value recorded in the cashflow hedge reserve in relation to this derivative within the next twelve months.

The Final Investment Decision to proceed with the project was taken on 7 February 2023.

The carrying value of derivatives relating to this judgement at the reporting date was a liability of £53.9 million. Refer to Note 11(e) C3 for further details.

OTHER JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Consideration of climate change

The impact of climate change, including risks identified in the Strategic Report on page 25, on the financial statements has been considered. No material impact on the judgements and estimates made in the preparation of the financial statements has been identified. This consideration focussed on the following areas:

- the Group's going concern position, including the cash flow prepared for the directors' assessment referred to in Note 2A3;
- whether the transition plans disclosed on pages 32 to 41 are an impairment indicator and consistent with the useful lives of the assets included in Notes 6 and 7;
- the risk that increasing variability in weather patterns could result in lower output from renewable generation assets and that there could be a reduction in wholesale electricity prices (as a result of climate change or other factors) are considered in the impairment sensitivities presented in Note 6(b); and
- the risk set out on page 34 of increased cost of capital for investments in technologies or business models that are deemed to be unrelated in the fight against climate change has been considered in terms of the potential impact on the cash flows and value-in-use calculations within an impairment test.

Additionally, consideration has been given to any estimates over the longer-term which should be disclosed to allow for an understanding of the financial statements. The Group has no estimates of this nature to disclose.

SIGNIFICANT ESTIMATION UNCERTAINTY IN APPLYING THE GROUP'S ACCOUNTING POLICIES

Retirement benefit obligations (including valuation of level 3 pension plan assets)

The key assumptions underlying the valuation of retirement benefit obligations include the discount rate, inflation rates and mortality. The assumptions adopted are based on scheme experience, market conditions and are set after consultation with qualified actuaries and other specialists within the Iberdrola Group. While these assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the defined benefit obligation recorded within the next twelve months. Note 9 provides information on the key assumptions used and sensitivity analysis relating to the Group's retirement benefit obligations.

Similarly, the valuation of the plan assets is subject to estimates and assumptions. In particular for asset classes that are unquoted and are based on estimates rather than final audited values. Certain level 3 plan assets are, therefore, subject to significant estimation uncertainty which could materially impact the value of the plan assets recorded within the next twelve months. Further detail is provided in Note 9 E3.2.

Expected credit losses ("ECLs") on Energy Retail trade receivables

The Group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Retail customer receivables. The Group has adopted the practical expedient whereby it calculates the ECL on Energy Retail's customer receivables using a provision matrix. In line with previous years with the exception of I&C customers, the provision rates are based upon the customers' payment plan, historical credit loss experience and, where possible, adjusted for forecast information. To establish levels of ECLs for these customers, the recoverability of equivalent balances from the previous three years have been reviewed. In terms of assessing the loss allowance for I&C customers, the ECL is based on external credit scoring.

There is a level of estimation uncertainty in determining the provision, recognising the current level of energy market disruption, including the ongoing cost of living crisis, and the forecast uncertainty in macro-economic indicators. In line with IFRS 9, a forward-looking loss allowance has also been included to ensure that external factors are appropriately mitigated. Given the Group's decision to exit the I&C market, to mitigate any debt impacts of this decision, security deposits are being requested for customers who have previously paid late. Additionally, maturing and late-paying customers are being placed on deemed higher rates.

While the assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the ECLs recorded within the next twelve months. Refer to Note 11(e)A.3 for details on both the key assumptions used and sensitivity analysis).

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

Accrued 'unbilled' revenue

The Group operates in the GB energy industry, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. While these assumptions are believed to be appropriate, a change in these assumptions could materially impact the value of the accrued revenue recorded within the next twelve months. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. This methodology is consistent with prior years and in line with prior years, settlement data received post year end was reviewed and supported the provisioning level. Refer to Note 3M(d) for key assumptions used and Note 22(a)(iii) for sensitivity analysis relating to accrued revenue.

The value of gross unbilled revenue in the Statement of financial position is £1,263.7 million (2021 £655.6 million). The increase in the year is as a result of higher tariffs reflecting increased energy costs.

Provision for decommissioning costs

Decommissioning costs are subject to a degree of uncertainty as they are estimated at the reporting date and actual decommissioning will take place in the future. There is also uncertainty over when the actual decommissioning costs will be incurred. The sources of estimation uncertainty relate to the estimated value of the costs at the reporting date and the discount rate applied. This estimation uncertainty creates a risk of a material adjustment to the provision in the next financial year. Refer to Note 3K for further details. Sensitivity disclosures are set out in Note 18.

The value of decommissioning provisions in the Statement of financial position is £256.8 million (2021 £443.0 million). The decrease in the year is due to the increase in discount rates used in the calculation.

PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in preparing the Consolidated accounts are set out below.

A GOODWILL
B OTHER INTANGIBLE ASSETS
C PROPERTY, PLANT AND EQUIPMENT
D LEASED ASSETS
E IMPAIRMENT OF INTANGIBLE ASSETS (EXCLUDING GOODWILL), PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS
F RETIREMENT BENEFITS
G JOINT ARRANGEMENTS
H FINANCIAL INSTRUMENTS
I INVENTORIES (EXCLUDING ROCs)
J ROCs
K DECOMMISSIONING COSTS
L ONEROUS RETAIL CONTRACTS
M REVENUE
N PROCUREMENTS
O OTHER OPERATING RESULTS
P FOREIGN CURRENCIES
Q TAXATION
R GOVERNMENT SUPPORT SCHEMES
S CASH AND CASH EQUIVALENTS

A GOODWILL

Goodwill represents the excess of the fair value of the purchase consideration over ScottishPower's share of the fair value of the identifiable assets and liabilities of an acquired business at the date of acquisition. Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is recognised as an asset and reviewed for impairment at least annually and whenever there is an indication of impairment. Any impairment is recognised in the Income statement in the period in which it is identified. Any permanent impairment losses are not reversed.

On disposal (or partial disposal) of a subsidiary, associate, jointly controlled entity or business, the proportionate amount of allocated goodwill is included in the determination of the gain or loss arising.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of the expected future cash flows of the relevant Cash Generating Unit ("CGU"), or disposal value if higher. The discount rate applied is based on ScottishPower's weighted average cost of capital with appropriate adjustments for the risks associated with the CGU. The discount rate used reflects lease liabilities under IFRS 16 'Leases' ("IFRS 16"). Estimates of cash flows involve a significant degree of judgement and are consistent with management's plans and forecasts. Refer to Note 6(b) for further details on the impairment testing performed on goodwill.

B OTHER INTANGIBLE ASSETS

(a) Computer software

The costs of acquired computer software, such as licences, are capitalised on the basis of the costs incurred to acquire, and bring to use, the specific software. Amortisation of acquired computer software is on a straight-line basis over their operational lives, which is generally up to five years.

Costs directly attributable to the development of computer software programmes, that are expected to generate economic benefits over a period in excess of one year, are capitalised and amortised on a straight-line basis over their estimated operational lives. Costs include employee costs relating to software development and an appropriate proportion of relevant overheads directly attributable to bringing the software into use. Amortisation of developed computer software costs is over periods of up to eight years.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

B OTHER INTANGIBLE ASSETS *continued*

(b) Customer contract costs

The Group capitalises the incremental costs of obtaining certain customer contracts, principally sales commissions, if they are expected to be recovered. These are recorded as a separate asset class within Intangible assets and amortised on a systematic basis according to the average expected life of contracts with customers that are associated with such costs. The amortisation period is between two and four years. The Group has elected to apply the amortisation period to a portfolio of contracts with similar characteristics as the Group expects that the effect on the financial statements is not materially different from applying it to the individual contracts.

C PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated operational lives of the assets. Property, plant and equipment includes capitalised employee costs, interest, lease depreciation and other directly attributable costs. Borrowing costs directly attributable to the acquisition, construction or production of major qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use) are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. Property, plant and equipment also includes transfers of assets from inventories being generic maintenance parts which are capitalised once used in the construction of significant assets. Reviews of the estimated remaining lives and residual values of property, plant and equipment are undertaken annually. Residual values are assessed based on prices prevailing at each reporting date.

Land is not depreciated. The main depreciation periods used by the Group are as set out below:

	Years
Wind power plants	22-40
Gas storage facilities	10-35
Transmission facilities	40
Distribution facilities	22-40
Meters and measuring devices	2-23
Other facilities and other items of property, plant and equipment	2-50

D LEASED ASSETS

A contract is, or contains a lease if, at inception, the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

An identified asset will be specified explicitly, or implicitly, in the contract, and will be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified.

A contract conveys the right to control the use of an identified asset if the customer has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use, and the customer has the right to direct the use of the asset. The customer has this right when they have the decision-making rights that are most relevant to changing how and for what purpose the asset is used. Where this is predetermined, the customer has the right to direct the use of the asset if either they have the right to operate the asset or they designed the asset in a way that predetermines how and for what purposes it will be used.

The Group has elected not to separate non-lease components and thus accounts for the lease and non-lease components in a contract as a single lease component.

D1 LESSEE

As a lessee, the Group recognises a right-of-use asset at the lease commencement date, measured initially at cost. This comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and an estimate of costs to dismantle and remove the underlying asset, or restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date over the shorter of the useful life of the underlying asset and the lease term. The right-of-use asset is reduced by any impairment losses and adjusted for certain remeasurements of the lease liability. The Group presents Right-of-use assets within Non-current assets in the Statement of financial position and the depreciation charge is recorded within Depreciation, amortisation and provisions in the Income statement.

The lease liability recognised at the commencement date is measured initially at the present value of the lease payments that are not paid at that date. Where the rates implicit in the leases cannot be readily determined, the liabilities are discounted using the Group's incremental borrowing rate, being the currency-specific interest rate that would be incurred on a loan, with similar terms, to purchase a similar asset. The incremental borrowing rates will be updated annually and applied to leases commencing in the subsequent year. Therefore, the lease liability is measured at amortised cost using the effective interest rate method. Lease payments included in the measurement of the lease liability comprise fixed payments (including in-substance fixed payments); variable lease payments that depend on an index or a rate initially measured using the index or rate at the commencement date; lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and penalties for early termination of a lease unless the Group is reasonably certain not to do so.

The lease liability is remeasured when there is a change in the future lease payments arising from a change in the index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. This change in the lease liability will result in a corresponding adjustment to the carrying amount of the right-of-use asset, or in the Consolidated income statement if the carrying amount of the right-of-use asset is zero.

The Group presents lease liabilities separately in the Statement of financial position; the discount on the liabilities unwinds over the term of the lease and is charged to Finance costs in the Income statement.

The Group has elected not to recognise right-of-use assets and lease liabilities for certain short-term leases that have a lease term of twelve months or less, and leases of intangible assets. The Group recognises any lease payments associated with such leases as an expense on a straight-line basis over the lease term.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

D1 LESSEE *continued*

In the Statement of cash flows, the Group includes the payment of lease liabilities and interest paid on lease liabilities within Cash flows from financing activities; variable lease payments which are not dependent on an index or rate are included in Cash flows from operating activities.

D2 LESSOR

When the Group acts as a lessor, it determines at inception whether each lease is a finance or operating lease. The Group classifies leases as finance leases whenever the lease transfers substantially all the risks and rewards incidental to ownership of the underlying asset to the lessee. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for its interest in the head lease and the sub-lease separately; classifying the sub-lease with reference to the right-of-use asset arising from the head lease, not the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease. The Group recognises operating leases payments received as income on a straight-line basis over the lease term as part of Other operating results.

E IMPAIRMENT OF INTANGIBLE ASSETS (EXCLUDING GOODWILL), PROPERTY, PLANT AND EQUIPMENT AND LEASED ASSETS

At each reporting date, the Group reviews the carrying amount of its intangible assets, property, plant and equipment and leased assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset (the greater of its value-in-use and its fair value less costs to sell) is estimated in order to determine the extent of the impairment loss (if any). In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money, the risks specific to the asset and lease liabilities under IFRS 16.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. Any impairment is recognised in the Income statement in the period in which it is identified. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been recognised, net of depreciation or amortisation, if no impairment loss had been recognised.

F RETIREMENT BENEFITS

The Group provides pensions through two defined benefit schemes and one defined contribution retirement benefit scheme in the UK.

The cost of providing benefits under the defined benefit schemes is determined using the projected unit credit method, with actuarial valuations being carried out at each reporting date. Remeasurements of the net defined benefit asset/liability are recognised, directly in Retained earnings, in the period in which they occur, and are shown in the Statement of comprehensive income. The current service cost element of the pension charge is recognised within Staff costs in the Income statement. Net interest on the net defined benefit liability or asset is included within Finance costs and Finance income, respectively, in the Income statement. The retirement benefits asset and liability recognised in the Statement of financial position represent the surpluses and deficits, respectively, in ScottishPower's defined benefit pension schemes.

Payments to the defined contribution scheme are charged as an expense as they fall due.

Key sources of estimation uncertainty in respect of retirement benefit obligations are disclosed above in Note 3.

G JOINT ARRANGEMENTS

Joint arrangements are arrangements that are jointly controlled by the Group and at least one other party. Joint control is the contractually agreed sharing of control of an arrangement i.e. when decisions about the relevant activities require the unanimous consent of the parties sharing control. A joint arrangement where the Group and the other parties to the joint arrangement have rights to the net assets of the arrangement, is a joint venture. Where the parties have rights to the assets of the arrangement and obligations for its liabilities, the arrangement is a joint operation.

Joint arrangements which are structured through a separately identifiable vehicle with legal personality are joint ventures unless there are contractual terms of the arrangements between the parties, or other relevant facts and circumstances, with the effect of giving the parties rights to the assets and obligations for the liabilities of the joint arrangements, in which case the arrangements are joint operations.

The Group recognises its interest in a joint venture as an investment and accounts for that investment using the equity method. The Group recognises, in relation to its interest in a joint operation, its share of the assets, liabilities, income, and expenses relating to its interests in the joint operation on a line-by-line basis.

H FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

H1 FINANCIAL ASSETS

H1.1 CLASSIFICATION

Financial assets are classified as being measured at amortised cost, fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets depends on the Group's business model for managing them to generate cash flows.

The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. The business model of the Group does not depend on the intentions of management for an individual instrument. Therefore, it is not an instrument-by-instrument classification approach but determined from a higher level of aggregation.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the 'SPPI' test.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

H1 FINANCIAL ASSETS *continued*

H1.1 CLASSIFICATION *continued*

A financial asset is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI test) on the principal amount outstanding.

All remaining financial assets (including equity instruments and other investments) that are not included within the above categories, are classified as FVTPL.

Financial assets are only subsequently reclassified when the Group changes its business model for managing them. Reclassifications are effective from the first day of the first reporting period following the change in business model. Such reclassifications are expected to be infrequent.

H1.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

All financial assets, except for trade receivables which are initially recognised when they originate, are initially recognised when the Group becomes party to the contractual provisions of the instrument.

Subject to two exceptions, financial assets are initially measured at fair value. The two exceptions are trade receivables without a significant financing component which are measured at the transaction price determined under IFRS 15 'Revenue from Contracts with Customers' ("IFRS 15"), and financial assets not classified as FVTPL which are measured at fair value plus transaction costs that are directly attributable to its acquisition or issue.

(b) Subsequent measurement and gains and losses

Financial assets classified as amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by expected credit losses. Interest income, foreign exchange gains and losses, and net credit losses are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement.

Financial assets classified as FVTPL are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in the Income statement unless the financial asset is a derivative which is part of a hedging relationship (refer to Note 3H3). It may not be possible to obtain a market valuation for some unquoted investments, therefore they are valued at cost and assessed for impairment.

Financial assets classified as FVOCI are subsequently measured at fair value. Net gains and losses are recognised within Other comprehensive income.

(c) Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when either the rights to receive cash flows from the asset have expired; there is no reasonable expectation of recovering all, or a portion of, the contractual cash flows; or in certain circumstances where the Group has transferred its rights to receive cash flows from the asset, or has entered a 'pass-through' arrangement obligating the Group to pay the received cash flows in full without material delay to a third party. Under the last scenario, the Group evaluates if, and to what extent, it has retained the risks and rewards of ownership and derecognises the financial asset where these have been transferred. If substantially all the risks and rewards of ownership have neither been transferred nor retained, the Group assesses whether it controls the asset. Where the Group does not retain control, the asset is derecognised and separate assets and liabilities are recognised to reflect the effect of the transfer.

(d) Impairment of financial assets

(i) Measurement of ECLs

Disclosures relating to impairment of financial assets are provided in Note 11. The Group recognises an allowance for ECLs for all debt instruments not classified as FVTPL. ECLs are a probability-weighted estimate of credit losses. The Group has adopted the simplified ECL model for its trade receivables and the general ECL model for all other financial assets measured at amortised cost.

In applying the simplified model, loss allowances for trade receivables are measured at an amount equal to lifetime ECL. The Group has segmented its trade receivables between those relating to Energy Retail customer debt and those within the rest of the Group. For each grouping, the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for, where possible, forward-looking factors specific to the debtors and the economic environment in which they operate (refer to Notes 11(e)A3 and A4 for further details).

For Energy Retail customer debt, ECLs are calculated based upon a provision matrix approach that reflects the risk inherent in different payment plans, the differences in collection rates between debt attributable to current or lost (final) customers and the greater challenge in collecting older debt balances. For I&C customers, the ECL is based on external credit scoring. The Energy Retail Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and those the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

ECLs for all other financial assets are recognised using the general model which works as follows:

- for credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses resulting from default events that are considered possible within the shorter of the next twelve months and the life of the financial asset (a twelve month ECL); and
- for credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

H FINANCIAL INSTRUMENTS *continued*

H1 FINANCIAL ASSETS *continued*

H1.2 RECOGNITION AND MEASUREMENT *continued*

(d) Impairment of financial assets *continued*

(i) Measurement of ECLs *continued*

As an exception to the general model, if the credit risk of a financial instrument is low at the reporting date, management can measure impairment using a twelve-month ECL and so it does not have to assess whether a significant increase in credit risk has occurred. For this operational simplification to apply, the financial instrument has to meet the following requirements:

- it has a low risk of default;
- the borrower is considered, in the short-term, to have a strong capacity to meet its obligations; and
- the lender expects, in the longer-term, that adverse changes in economic and business conditions might, but will not necessarily, reduce the ability of the borrower to fulfil its obligations.

The Group considers financial assets to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment-grade'. The Group considers this to be BBB- or higher per rating agency Standard & Poor's. Therefore, all of the Group's other financial assets are considered to have low credit risk at both the beginning and end of the reporting period.

The Group has different definitions of default (risk of non payment) for different groups of customers and receivables. For some groups it is based upon the number of days past due and for others it is when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amount in full (before taking into account any credit enhancements held by the Group). These varying definitions of default are inherent in the loss allowances applied in both the simplified and general ECL models.

(ii) Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are 'credit-impaired'. This is the case when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Generally, receivables are credit impaired when payment is past the contractual payment date.

H2 FINANCIAL LIABILITIES

H2.1 CLASSIFICATION

Financial liabilities are classified as measured at FVTPL or amortised cost. A financial liability is classified as FVTPL if it is classified as held-for-trading, a derivative, or otherwise designated as such on initial recognition.

H2.2 RECOGNITION AND MEASUREMENT

(a) Initial recognition and measurement

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

(b) Subsequent measurement and gains and losses

Financial liabilities classified as FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in the Income statement.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in the Income statement. Any gain or loss on derecognition is also recognised in the Income statement. This is the category most relevant to the Group as it includes interest-bearing loans and borrowings, and trade and other payables.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees, or costs that are an integral part of the effective interest rate. The effective interest charge is included as Finance costs in the Income statement. This subsequent measurement technique does not apply where the loan or borrowing is a hedged item in an effective fair value hedging relationship (refer to Note 3H3.3).

(c) Derecognition

The Group derecognises a financial liability when the obligation under that liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, the original liability is derecognised and a new liability recognised. The difference in their respective carrying amounts is recognised in the Income statement.

H2.3 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group offsets a financial asset and a financial liability, and reports the net amount, only when the Group has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

H3.1 DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as forward foreign currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate, inflation and commodity price risks. Derivatives are carried as financial assets and financial liabilities when their fair values are positive and negative respectively.

The gain or loss on remeasurement to fair value is recognised immediately in the Income statement unless the derivative is subject to hedge accounting. Where the derivative is subject to hedge accounting, the recognition of any gain or loss depends on the nature of hedge accounting applied (refer to Note 3H3.2).

At the inception of a hedge relationship, the Group formally designates and documents the relationship to which it wishes to apply hedge accounting, the risk management objective, and the strategy for undertaking the hedge.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

H3 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *continued*

H3.1 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

The hedge documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the relationship is the same as that resulting from the quantity of the hedged item and the quantity of the hedging instrument that the Group uses to hedge that quantity of the hedged item.

In circumstances where the Group seeks to a hedge a risk which is a component part of an underlying transaction, the risk component of that transaction is considered to be the hedged item where it is separately identifiable and can be reliably measured.

The accounting for cash flow and fair value hedges is set out at Notes 3H3.2 and 3H3.3 respectively.

In the Statement of cash flows, the Group includes cash flows arising from hedging instruments as arising from the same category of activity as cash flows arising from the hedged item.

H3.2 CASH FLOW HEDGES

The Group designates only the spot element of treasury-related forward foreign currency contracts (hedging the value of currency denominated intercompany loans) as a hedging instrument. The forward element is recognised in Other comprehensive income and accumulated as a separate component of the hedge reserve under the Cost of hedging reserve. For all other forward contracts, the Group designates all of the forward contract (both the spot and forward elements) as the hedging instrument.

The portion of gain or loss of the hedging instrument determined to be an effective hedge is recognised in Other comprehensive income and forms part of the hedge reserve. The ineffective portion of the change in fair value of the hedging instruments is recognised in the Income statement within Procurements for hedges of underlying operations. For hedges of financing activities, any ineffectiveness is recognised within Finance income or Finance costs, as appropriate, in the Income statement. If the cash flow hedge relates to an underlying transaction which results in the recognition of a non-financial asset, the associated gains or losses on the derivative (previously recognised in equity) are recognised in the initial measurement of the asset arising from the hedged transaction. For hedges that relate to an underlying transaction which results in recognition of a financial asset or a liability, amounts deferred in equity are recognised in the Income statement in the same period in which the hedged item affects it.

The Group discontinues hedge accounting when the hedge instrument expires or is sold, terminated or exercised, or when the hedge relationship no longer qualifies for hedge accounting. In the case of cash flow hedging, any gain or loss that has been recognised in equity remains there until the forecast transaction occurs. If the transaction is no longer expected to occur, the gain or loss previously deferred in equity is recognised in the Income statement.

H3.3 FAIR VALUE HEDGES

The gain or loss from remeasuring the hedging instrument at fair value is recognised directly in the Income statement in the same location as the gain or loss from remeasuring the hedged item. The gain or loss on the hedged item adjusts its carrying amount (when the item would otherwise have been measured at amortised cost) and is recognised in the Income statement. The Group commences amortisation of any such adjustments to the carrying amount of the hedged item when the hedging relationship ends.

On the discontinuance of hedge accounting, any adjustment made to the carrying amount of the hedged item as a consequence of the fair value hedge relationship, is recognised in the Income statement over its remaining life. The line item Current financial liabilities refers to collateral held by the Group which mitigates the credit risk from specific derivative assets which have been entered into by the Group to hedge specific loans and borrowings. As a financial liability, it is accounted for in accordance with the policies described in Note 3H2 above.

H4 FAIR VALUATION OF FINANCIAL INSTRUMENTS

In those circumstances where IFRS 9 requires financial instruments to be recognised in the Statement of financial position at fair value, the Group's valuation strategies for derivative and other financial instruments utilise, as far as possible, quoted prices in an active trading market.

In the absence of quoted prices for identical or similar assets or liabilities, it is sometimes necessary to apply valuation techniques where contracts are marked using approved models. Models are used for developing both the forward curves and the valuation metrics of the instruments themselves where they are complex combinations of standard and non-standard products. All models are subject to rigorous testing prior to being approved for valuation, and subsequent continuous testing and approval procedures are designed to ensure the validity and accuracy of the model assumptions and inputs.

All assets and liabilities, for which fair value is measured or disclosed in the financial statements, are categorised within the fair value hierarchy, the details of which are disclosed in Note 11(b).

I INVENTORIES (EXCLUDING ROCs)

Inventories held comprise fuel stock and other inventories, primarily offshore transmission assets. As a legislative requirement, the Group is not permitted to own and operate the offshore transmission assets which it constructs alongside its offshore wind farms, and consequently they must be sold to a third party operator following their completion and an initial allowed operational period. Therefore, such transmission assets are being built with a view to sell and not operating them as capital assets over future periods. The costs incurred are recorded as inventory and released through Procurements when sold. The sale of offshore transmission assets are infrequent but a periodic recurring activity, with a construction cycle spanning multiple financial periods.

Inventories are valued at the lower of cost and net realisable value. Cost includes all directly attributable costs incurred in bringing the inventories to their present location and condition. When sold, the carrying amount of those inventories are recognised as an expense in the period in which the related revenue is recognised.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

J ROCs

The Group participates in the Renewables Obligation ("RO") scheme administered by Ofgem. As there are no specific rules under IAS dealing with their treatment, the Group classifies ROCs as inventories because they are a direct input cost to the process of supplying customers. ROCs are recognised at their acquisition cost and charged to the Income statement as the obligations arise. Internally-generated ROCs are awarded by Ofgem and are recognised at their relevant buyout price and estimated recycle price at the reporting date.

The Group recognises liabilities in respect of its obligations to deliver ROCs at the value at which they were initially recorded on the Statement of financial position. Any estimated shortfall in the liability is calculated based on the relevant buyout price at the reporting date. ROCs surrendered to meet the RO utilises the related provision and is a non-cash movement.

K DECOMMISSIONING COSTS

Provision is made, on a discounted basis, for the estimated decommissioning costs of certain non-current assets. Capitalised decommissioning costs are depreciated over the useful lives of the related assets. The unwinding of the discount is included within Finance costs in the Income statement. The discount rate used for each provision is based on UK treasury bonds with maturities which are similar to the expected decommissioning date. The future estimated costs are based on the value of the costs at the reporting date, uplifted for inflation to the end of the useful economic life of the underlying asset, then discounted.

L ONEROUS RETAIL CONTRACTS

An onerous contract is one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relates directly to the contract. Until 31 December 2021, this was considered to be the incremental costs of fulfilling that contract and a provision recognised for any onerous contracts identified to the present value of the obligations under them. Following the implementation of the Amendments to IAS 37 'Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract' on 1 January 2022 (refer to Note 2B(a)), the cost of fulfilling a contract comprises both the incremental costs of and also an allocation of other costs that directly relate to fulfilling that contract. The assessment of contracts to determine if they are onerous or not, is subject to a degree of judgement.

In the prior year, certain contracts, in particular those with domestic retail customers defaulting on to the standard variable tariff, were assessed to consider if the costs to supply these customers exceeded the price cap level. The net cost of continuing with the contracts was considered after taking into account revenues directly related to the contracts. Judgement was applied to assess the future revenues, incremental costs (including the cost of energy committed where relevant) and the expected customer life (i.e. the contract period). As at 31 December 2021, these contracts were not considered to be onerous thus no provision was recognised. However, upon application of the Amendment to IAS 37, and taking into consideration both the incremental costs and other costs directly related to fulfilling these contracts, these contracts were deemed to be onerous. Therefore, a £60.0 million provision was recognised at 1 January 2022, which has been fully utilised in the current year. At 31 December 2022, these contracts are no longer considered onerous as the economic benefits expected to be received from them now exceed the unavoidable costs of meeting the obligations under the contracts. This is partly due to the changes that have been made to the Ofgem price cap mechanism and the government support schemes that have been put in place during 2022.

M REVENUE

The Group recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods and services.

(a) Electricity distribution

The Group provides the service of making its distribution network available to customers. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the distribution network available. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, revenue is recognised in the amount to which the Group has a right to invoice based on the amount of allowed revenue for the year set by the regulatory price control. Due to the nature of the electricity settlements industry process, revenue includes unbilled income recognised as a receivable relating to units transferred over the network but not yet invoiced at the end of the year. Invoices are raised one month in arrears and are typically settled within one month.

(b) Electricity transmission

The Group provides the service of making its transmission network available to the GB system operator. This performance obligation is satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it makes the transmission network available. Until 31 March 2021, the customer benefitted from the Group's service evenly throughout the year, therefore, time was used to measure progress towards complete satisfaction of the performance obligation. Revenue was recognised on a straight-line basis throughout the year based on the fixed amount of allowed revenue for the year set by the regulatory price control. Following the commencement of RIIO-T2 on 1 April 2021, revenue continues to be recognised in an amount to which the Group has a right to invoice based on the amount of allowed revenue for the year, but recognised over time based on the billable volumes and the rate agreed in the regulatory price control. Invoices are typically raised and settled on a monthly basis and, therefore, there are no related IFRS15 receivables, contract assets or contract liabilities at the end of the year.

(c) Transfers of assets from customers

Pursuant to the applicable industry regulations, the Group receives contributions from its customers for the construction of grid connection facilities, or is assigned assets used to connect those customers to a network. Both the cash and the fair value of the facilities received are credited to Deferred income in the Statement of financial position (this is a contract liability). Revenue is subsequently recognised in line with the period over which the facilities are depreciated. As the cash contributions received from customers relate to underlying business activities, they are recorded as Cash flows from operating activities in the Statement of cash flows.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

M REVENUE *continued*

(d) Supply of electricity and gas

The Group's performance obligations are the supply of electricity and/or gas to customers. Both these performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits of the Group's performance as it supplies electricity and gas. The Group has a right to consideration in an amount that corresponds directly with the value to the customer of the Group's performance to date. Therefore, in line with IFRS 15, revenue is recognised in the amount to which the Group has a right to invoice based on the volume of units supplied during the year and the tariff agreed with the customer. Effective 1 October 2022, the Group are participating in the EPG and EBRS schemes which are designed to support energy customers in GB through the current cost of living crisis. The EPG scheme (which runs until 31 March 2024) requires suppliers to charge a reduced tariff to domestic customers. The EBRS scheme (which runs until 31 March 2023) requires suppliers to apply a discount to the bills of non-domestic customers. Therefore, following the implementation of these schemes, the revenue recognised from 1 October 2022 (and for the duration of these schemes) is, in line with IFRS 15, based on the volume of units supplied to customers and the reduced or discounted tariff as determined by the scheme rules.

The Group operates in the GB energy industry, whose nature is such that revenue recognition is subject to a degree of estimation. Revenue includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. This estimate is based on external data supplied by the electricity and gas market settlement process and internal data relating to energy purchases where settlement data is not yet available. Where volumes are yet to reach final settlement, a provision is made against unbilled revenue recognised in respect of those volumes. The provision is determined by considering the current unbilled position, historical trends, and any other known factors such as the current economic climate. The value assigned to these estimated volumes is based on a weighted average price per unit derived from the billing systems. This methodology is consistent with prior years.

Invoices are generally raised at monthly or quarterly intervals, which customers typically settle on the same basis respectively, except for prepayment customers who pay in advance. Billed and unbilled revenues are recorded in receivables. Amounts in contract liabilities consist of DD customer payments that are in excess of the associated units of energy delivered, and final customer credits.

Government support will be received by the Group to fund the EPG and EBRS schemes. Government grants are assistance by government in the form of transfers of resources in return for past or future compliance with certain conditions relating to the operating activities of the entity. Such grants are recognised in the Income statement on a systematic basis over the periods in which the costs for which the grants are intended to compensate are expensed; where the income receivable is compensation for expenses or losses already incurred, the grant income is recognised in the Income statement in the period in which it becomes receivable. Both schemes are considered to be a government grant with the income received being recognised in line with the energy consumption by each eligible customer throughout the scheme periods. The income recognised in line with IAS 20 'Accounting for Government Grants and Disclosure of Government Assistance' ("IAS 20") is recorded in Revenue – Revenue received from government support schemes in the Income statement as the funding is support for lost customer revenue. There is no difference in the timing of the recognition of this revenue under IAS 20 compared to under IFRS 15 had the schemes not be in place. As the grant funding is paid in arrears, the amounts due from the UK Government will be accrued within Other receivables – Receivables in respect of government support schemes on the Statement of financial position until paid.

(e) Contracts for Difference

CfDs are contracts with the Low Carbon Contracts Company ("LCCC") which provide security in respect of revenues generated from electricity produced and sold by the Group through compensation based on the difference between the strike price and the market price, for an agreed period. If the market reference price is lower than the agreed strike price, the generator will receive an additional payment. If the reference price is higher than the strike price, the generator will be liable for the difference.

CfDs are assessed at their inception. For contracts where the market price is expected to be lower than strike price over the term of the agreement, the Group is considered to be in receipt of government assistance. Therefore, such CfDs are accounted for as revenue grants and are recognised as income on a systematic basis over the period in which they become receivable, which is at the point of generation. The Group is considered to be a net receiver for all of its existing CfDs.

(f) Sale of offshore transmission asset

Revenue from the disposal of an offshore transmission asset (held as inventory) is the consideration received for the assets sold, recognised when control of assts has been transferred to the purchaser. Any consideration received in advance of this should be deferred on the Consolidated statement of financial position and released once the goods and services are delivered.

(g) Other revenues

Other revenues, comprises various revenue streams which are all individually immaterial, including revenues in relation to the Energy Retail and Wholesale Smart Solutions business and ancillary services contracts for the Renewables business. For each revenue stream, revenue is recognised based on the consideration specified in the relevant contract with the customers, to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur in the future. As relevant for each revenue stream, and in line with the performance obligations in each contract, the Group recognises revenue either at a specific point in time or over a period of time based on when control is transferred to the customer.

N PROCUREMENTS

Procurement costs in Energy Networks principally comprise use of system charges from the system operator. In Renewables, such costs are primarily electricity purchased in relation to energy generation, and related direct costs and services, in addition to the carrying amount of inventories sold in the period in which the related revenue is recognised. Procurements within Energy Retail and Wholesale are principally the cost of electricity and gas purchased in relation to energy supply, and related direct costs and services for the of use of the energy network. Costs are recorded on an accruals basis.

3 JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

O OTHER OPERATING RESULTS

Other operating results is principally comprised of recharges, primarily in relation to Energy Networks' unregulated income, recharges of external costs in Energy Retail and Wholesale and Renewables activity recharged to other Iberdrola group companies. The line item also includes compensation and rebates received, lease income, and gains/losses on disposal of non-current assets including results from the loss of control of consolidated interests. There are no individually material items included within Other operating results in either the current or prior year.

P FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the spot rate at the date of the transaction. At the year end, monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the reporting date, with exchange gains and losses recognised in Finance income and costs in the Income statement.

Q TAXATION

Assets and liabilities for current tax are calculated using the tax rates that have been enacted, or substantively enacted, at the reporting date.

Deferred tax is the tax expected to be payable, or recoverable, on the difference between the carrying amounts of assets and liabilities in the Statement of financial position and the corresponding tax bases used in the computation of taxable profits (temporary differences), and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences, unused tax losses or credits can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated on a non-discounted basis at the tax rates that are expected to apply in the period in which the liability is expected to be settled, or the asset realised, based on tax rates and laws enacted, or substantively enacted, at the reporting date. Deferred tax is charged to the Income statement, except where it relates to items charged or credited to equity (via the Statement of comprehensive income), in which case the deferred tax is also recognised in equity and is shown in the Statement of comprehensive income. The Group offsets deferred tax assets and liabilities, and reports the net amount, only when the Group has a legally enforceable right to set off the amounts, and the offset deferred tax assets and liabilities relate to taxes levied by the same taxation authority on the same taxable company.

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or shown in the Statement of comprehensive income. For income tax arising on dividends, the related tax is recognised in the Income statement, Statement of other comprehensive income, or in equity consistently with the transactions that generated the distributable profits.

R GOVERNMENT SUPPORT SCHEMES – ENERGY BILLS SUPPORT SCHEME

The Group is participating in the EBSS which is designed to support energy customers in GB through the current cost of living crisis, running alongside the EPG and EBRS schemes discussed at Note 3M(d) above. The EBSS was effective from 25 September 2022 and requires suppliers to provide £400 to domestic electricity customers between October 2022 and March 2023. The Group generally received funding from the UK Government in advance of the payments being made to customers. The funds are recorded as Other payables – Payables in respect of government support schemes until the customer payments are made. Income is recognised as Revenue – Revenue received from government support schemes in the Income statement upon making the customer payment. In line with IFRS 15, the consideration payable to the customer is recorded as a reduction to Revenue. Where customer payments have been made in advance of the government funding being received, the costs are recorded as prepaid scheme obligation costs. The Group is restricted in how it can use the cash received from the UK Government and held in a ring-fenced bank account in relation to the EBSS. The restrictions do not change the nature of the assets, only the purpose for which they can be used, thus the funds should be considered as a component of Cash equivalents.

S CASH AND CASH EQUIVALENTS

Cash and short-term deposits in the Statement of financial position comprise cash on hand, and term deposits which are readily convertible into a known amount of cash without significant risk of changes in value and have a maturity of less than 90 days at the date of acquisition. In the Statement of cash flows, Cash and cash equivalents include bank overdrafts repayable on demand the next business day. The restrictions on the cash held in ring-fenced bank accounts in relation to EBSS and other regulatory projects do not change the nature of the assets, only the purpose for which they can be used, thus should be considered as a component of Cash and cash equivalents.

4 SCOPE OF CONSOLIDATION

(a) Significant judgements and assumptions used to determine the scope of the consolidation

The consolidated financial statements combine the financial statements of Scottish Power UK plc and its subsidiaries and joint arrangements. A subsidiary is an entity over which the Company has control. This is the case when the Company has power over the relevant activities of the investee, for example through voting rights; exposure, or rights to, variable returns from its involvement with the investee; and the ability to affect those returns through its power over the investee. No significant judgements have been made in applying these principles during the year.

(b) Significant restrictions

As is typical for a group of its size and scope, there are restrictions on the ability of ScottishPower to obtain distributions of capital, access the assets or repay the liabilities of members of its group due to the statutory, regulatory and contractual requirements of its subsidiaries, and due to the protective rights of non-controlling interests. After consideration of these factors, the resulting significant restrictions have been identified:

SP Distribution plc

SP Distribution plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2022 £m	2021 £m
Distributable reserves	**392.7**	571.1
Property, plant and equipment	**3,186.4**	3,092.1

SP Manweb plc

SP Manweb plc is a regulated DNO whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition 26 of the distribution licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	£m	£m
Distributable reserves	**385.0**	573.3
Property, plant and equipment	**3,347.5**	3,223.6

SP Transmission plc

SP Transmission plc is a regulated electricity transmission entity whose activities are governed by a licence granted by Ofgem. For such licenced entities the main drivers facilitating distributions, including dividends, are holding an investment-grade credit rating and compliance with several other licence conditions. The total value of distributable reserves is restricted by the requirement to comply with several licence conditions including holding an investment-grade credit rating. In addition, standard condition B3 of the transmission licence conditions restricts the disposal of property, plant and equipment. The Group has policies and procedures in place to adhere to the licence conditions and restrictions arising from them.

Value restricted	2022 £m	2021 £m
Distributable reserves	**518.0**	717.1
Property, plant and equipment	**3,281.3**	3,156.5

5 BUSINESS SEGMENT REPORTING

(a) Operating segments and business divisions

The Group defines its operating segments based on a combination of factors, principally differences in products and services, and the regulatory environment in which each business operates. The Group is organised into three reportable segments; Energy Networks, Renewables, and Energy Retail and Wholesale. The Group identifies SPT, SPD and SPM as individual operating segments, but as management deem these operating segments to exhibit similar economic characteristics, they have been aggregated (together with other Energy Networks entities) into a single reported segment, Energy Networks. In line with IFRS 8, the Group reports its segments on this basis and the measure of profit used for the purpose of reporting to the Chief Operating Decision Maker ("CODM") is operating profit as per the Consolidated income statement. The CODM for the Group are the CEO and chair of the Head of Business Sub-holding companies, being the SPENH, SPREL and SPRH boards. All revenue for the reported segments arise from operations within the UK and Republic of Ireland. Revenue arising from operations within the Republic of Ireland is not deemed material enough to disclose as a separate operating segment.

In accordance with the disclosure requirements of IFRS 8, the Annual Report and Accounts of the Group reports the relevant financial results of the reported segments (as described above). In the interest of improved transparency, the Group has voluntarily disclosed revenue and operating profit for the year ended 31 December 2022 for the separate business divisions within the Renewables and Energy Retail and Wholesale reported segments, whilst also providing detail in relation to non-recurring items and certain remeasurements arising from IFRS 9, consistent with the Supply and Generation regulatory licence conditions. This information has been calculated, where appropriate, in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences.

During the year ended 31 December 2022, the Group's reported segments and business divisions were as follows:

Reported segment	Business division	Business division description
Energy Networks	Energy Networks	The transmission and distribution business within the Group.
Renewables	Renewables – Licensed business[1]	The GB licensed activity of the Renewables reported segment, which develops and operates renewable generation plant.
	Other	The non-licensed activity of the Renewables reported segment, (which includes generation activity outside GB), the results of Coldham Windfarm Limited (which is exempt from holding a generation licence as it is classified as a small generator), and the impact of the amortisation of fair value attributed to the Renewables reported segment when purchased by Iberdrola during 2007.
Energy Retail and Wholesale	Supply – Licensed business[1]	The licensed activity of the Energy Retail and Wholesale reported segment which is responsible for the supply of electricity and gas to domestic and non-domestic customers.
	Energy Management[1]	The non-licensed activities of the Energy Retail and Wholesale reported segment, responsible for wholesale market purchases for the Supply – Licensed business division. In addition, Energy Management manages limited proprietary trading and gas storage activities.
	Other	The non-licensed activity of the Energy Retail and Wholesale reported segment which includes the Group's smart solutions activities, hydrogen activities and non-licensed metering activities, including smart meter asset provision.

[1] Renewables – Licensed, Supply – Licensed and Energy Management businesses are consistent with those disclosed in the Consolidated Segmental Statements for the Supply and Generation licensed businesses presented in accordance with Standard Licence Condition 16B of the Electricity Generation Licence and Standard Condition 19A of the Electricity and Gas Supply Licences. These statements can be found at www.scottishpower.com/pages/company_reporting.aspx.

5 BUSINESS SEGMENT REPORTING *continued*

(b) Revenue by reported segment and business division

(i) Revenue by reported segment

The revenue by reported segment for the year ended 31 December 2022 is detailed below. Refer to Note 22(a) for a disaggregation of external revenue.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	**1,220.7**	**159.7**	**1,380.4**
Renewables	**645.2**	**1,068.8**	**1,714.0**
Energy Retail and Wholesale	**6,569.0**	**17.2**	**6,586.2**
Elimination of inter-segment revenue			(1,245.7)
			8,434.9

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

The revenue by reported segment for the year ended 31 December 2021 is detailed below.

Reported segment	External revenue £m	Inter-segment revenue* £m	Revenue reported to the CODM £m
Energy Networks	1,139.6	136.7	1,276.3
Renewables	113.4	750.0	863.4
Energy Retail and Wholesale	4,096.7	10.6	4,107.3
Elimination of inter-segment revenue			(897.3)
			5,349.7

* Inter-segment revenue relating to Energy Networks is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

(ii) Additional information – Revenue by reported segment and business division

The revenue by reported segment and business division for the year ended 31 December 2022 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 85.

Reported segment	Business division	Revenue £m	Joint venture share of revenue (Note (iii)) £m	Revenue re-allocations as per regulatory licence requirements (Note (iv)) £m	Revenue as per regulatory licence requirements £m
Energy Networks		**1,380.4**	**–**	**–**	**1,380.4**
	Renewables – Licensed business	1,010.4	13.0	–	1,023.4
	Other**	703.6	0.2	–	703.8
Renewables		**1,714.0**	**13.2**	**–**	**1,727.2**
	Supply – Licensed business	6,338.1	–	(23.2)	6,314.9
	Energy Management	7,918.4	–	–	7,918.4
	Other	96.3	–	–	96.3
	Elimination of intra-segment revenue	(3,959.1)	–	–	(3,959.1)
	Netting adjustment*	(3,807.5)	–	–	(3,807.5)
Energy Retail and Wholesale		**6,586.2**	**–**	**(23.2)**	**6,563.0**
Elimination of inter-segment revenue		(1,245.7)	–	–	(1,245.7)
Total		**8,434.9**	**13.2**	**(23.2)**	**8,424.9**

* At an entity level, non-speculative wholesale market trades are shown gross in Revenue and Procurements. At a Group level, these are accounted for net, such that all Energy Retail and Wholesale non-speculative wholesale market trades are included within Procurements.

** Other Renewables revenue includes £682.4 million from the sale of the EA1 transmission asset which was classified as inventory.

(iii) Joint venture share of revenue

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the Consolidated income statement and so do not form part of Revenue.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so present income and costs in the appropriate lines of the Consolidated income statement.

(iv) Revenue re-allocations as per regulatory licence requirements

As disclosed in Note 24, in line with Group accounting policy, Taxes other than income tax includes the costs of the WHD scheme. As per the licence conditions, these costs are required to be deducted from Revenue.

5 BUSINESS SEGMENT REPORTING *continued*

(c) Operating profit/(loss) by reported segment and business division

(i) Operating profit/(loss) by reported segment

The operating profit/(loss) by reported segment for the year ended 31 December 2022 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	**599.3**
Renewables	**469.6**
Energy Retail and Wholesale	**(234.5)**
Unallocated	0.1
Total	**834.5**

The operating profit/(loss) by reported segment for the year ended 31 December 2021 is detailed below.

Reported segment	Operating profit/(loss) reported to the CODM £m
Energy Networks	572.2
Renewables	343.2
Energy Retail and Wholesale	(278.8)
Unallocated	83.8
Total	720.4

(ii) Additional information – Operating profit/(loss) by reported segment and business division

The operating profit by reported segment and business division for the year ended 31 December 2022 is detailed below. No comparative information has been provided as this is a voluntary disclosure as described on page 85.

Reported segment	Business division	Operating profit/(loss) £m	Joint venture share of operating profit (Note (iii)) £m	Non-recurring items (Note (iv)) £m	Certain remeasurements (Note (v)) £m	Adjusted operating profit as per regulatory licence requirements £m
Energy Networks		**599.3**	**–**	**(0.8)**	**–**	**598.5**
	Renewables – Licensed business	476.8	1.6	1.3	6.1	485.8
	Other	(7.2)	–	–	–	(7.2)
Renewables		**469.6**	**1.6**	**1.3**	**6.1**	**478.6**
	Supply – Licensed business	(322.3)	–	(1.0)	–	(323.3)
	Energy Management	52.3	–	–	1.2	53.5
	Other	35.5	–	9.3	–	44.8
Energy Retail and Wholesale		**(234.5)**	**–**	**8.3**	**1.2**	**(225.0)**
Unallocated		0.1	–	(0.7)	–	(0.6)
Total		**834.5**	**1.6**	**8.1**	**7.3**	**851.5**

(iii) Joint venture share of operating profit

All joint ventures within the Group are consolidated using the equity method. The results of the joint ventures are therefore presented within Results of companies accounted for using the equity method on the face of the Consolidated income statement and so do not form part of Operating profit.

As per the licence conditions, and the associated regulatory reporting, the Group is required to proportionally consolidate the results of the joint ventures and so presents revenues and costs in the appropriate lines of the Consolidated income statement.

(iv) Non-recurring items

In the year ended 31 December 2022, £(8.1) million of net non-recurring items were recorded.

Provisions for restructuring and other liabilities of £1.4 million: On review of the Group's provisions as at 31 December 2022, there was a net decrease to restructuring provisions and associated pension costs of £1.4 million. This was a net release to prior year provisions of £6.7 million offset by £5.3 million of new provisions in relation to expected restructuring costs in 2023.

Impairment and non-current asset write-offs of £(12.0) million: During the year ended 31 December 2022, the Group recognised a charge of £12.0 million which principally comprised the write-off of smart meter assets of £9.7 million.

Non-recurring income of £2.5 million: During the year ended 31 December 2022, the Group recognised £2.5 million of non-recurring income which principally comprised favourable settlement of insurance claims within the Energy Networks and Renewables segments.

(v) Certain remeasurements

Certain remeasurements are the fair value movements on and ineffectiveness on energy contracts arising from the application of IFRS 9. These have been disclosed separately to aid the understanding of the underlying performance of the Group.

5 BUSINESS SEGMENT REPORTING *continued*

(d) Other financial data by reported segment

Other items by reported segment for the year ended 31 December 2022	**Acquisition of property, plant and equipment and intangible assets reported to the CODM £m**	**Acquisition of right-of-use assets reported to the CODM £m**	**Depreciation, amortisation and impairment reported to the CODM £m**	**Net expected credit loss on trade and other receivables reported to the CODM £m**
Energy Networks	**623.7**	**8.1**	**345.8**	**1.5**
Renewables	**163.8**	**5.7**	**258.4**	**0.3**
Energy Retail and Wholesale	**123.1**	**–**	**149.6**	**85.0**
Unallocated	19.5	–	26.7	(0.3)
Total	**930.1**	**13.8**	**780.5**	**86.5**

Other items by reported segment for the year ended 31 December 2021	Acquisition of property, plant and equipment and intangible assets reported to the CODM £m	Acquisition of right-of-use assets reported to the CODM £m	Depreciation, amortisation and impairment reported to the CODM £m	Net expected credit loss on trade and other receivables reported to the CODM £m
Energy Networks	607.6	9.9	336.3	7.6
Renewables	201.8	5.2	243.7	(0.3)
Energy Retail and Wholesale	170.7	–	150.1	100.4
Unallocated	18.9	4.8	28.4	0.3
Total	999.0	19.9	758.5	108.0

6 INTANGIBLE ASSETS

(a) Movements in intangible assets

			Other intangible assets					
Year ended 31 December 2021	Note	Goodwill (Note (b)) £m	Computer software (Notes (i), (ii)) £m	Licences £m	Customer contract costs (Note (iii)) £m	Other £m	Total £m	Total £m
Cost:								
At 1 January 2021		364.6	484.6	9.5	202.5	5.4	702.0	1,066.6
Additions	(iv)	–	40.3	–	75.1	–	115.4	115.4
Disposals		–	(11.8)	–	(29.4)	–	(41.2)	(41.2)
At 31 December 2021		364.6	513.1	9.5	248.2	5.4	776.2	1,140.8
Amortisation:								
At 1 January 2021		–	377.6	4.6	80.7	4.4	467.3	467.3
Amortisation for the year		–	62.0	0.4	62.5	1.0	125.9	125.9
Disposals		–	(11.8)	–	(29.4)	–	(41.2)	(41.2)
At 31 December 2021		–	427.8	5.0	113.8	5.4	552.0	552.0
Net book value:								
At 31 December 2021		364.6	85.3	4.5	134.4	–	224.2	588.8
At 1 January 2021		364.6	107.0	4.9	121.8	1.0	234.7	599.3

			Other intangible assets					
Year ended 31 December 2022	Note	Goodwill (Note (b)) £m	Computer software (Notes (i), (ii)) £m	Licences £m	Customer contract costs (Note (iii)) £m	Other £m	Total £m	Total £m
Cost:								
At 1 January 2022		364.6	513.1	9.5	248.2	5.4	776.2	1,140.8
Additions	(iv)	–	33.7	–	21.8	–	55.5	55.5
Disposals		–	(5.0)	–	(56.0)	(5.4)	(66.4)	(66.4)
At 31 December 2022		**364.6**	**541.8**	**9.5**	**214.0**	**–**	**765.3**	**1,129.9**
Amortisation:								
At 1 January 2022		–	427.8	5.0	113.8	5.4	552.0	552.0
Amortisation for the year		–	49.2	0.3	66.9	–	116.4	116.4
Disposals		–	(5.0)	–	(56.0)	(5.4)	(66.4)	(66.4)
At 31 December 2022		**–**	**472.0**	**5.3**	**124.7**	**–**	**602.0**	**602.0**
Net book value:								
At 31 December 2022		**364.6**	**69.8**	**4.2**	**89.3**	**–**	**163.3**	**527.9**
At 1 January 2022		364.6	85.3	4.5	134.4	–	224.2	588.8

(i) The cost of fully amortised computer software still in use at 31 December 2022 was £411.6 million (2021 £100.1 million). During 2022, the customer relationship management system, with a cost of £214.0 million, became fully amortised.

(ii) Included in the net book value of computer software is £3.2 million (2021 £16.2 million) for an asset relating to system upgrades for smart metering which has one year of amortisation remaining. In 2021, there was also £2.8 million relating to the customer relationship management system which had less than one year of remaining amortisation.

(iii) Refer to Note 22(c) for details on customer contract costs.

(iv) Included within computer software additions is £2.4 million (2021 £2.3 million) from internal development.

6 INTANGIBLE ASSETS *continued*

(b) Impairment test for goodwill

The carrying amount of goodwill for Renewables at 31 December 2022 was £364.6 million (2021 £364.6 million).

The recoverable amount for Renewables has been determined based on a value-in-use calculation. The calculation uses cash flow projections which reflect past experience, and which are based upon a management approved business plan. Cash flows beyond that period reflect asset estimated useful lives as well as management's forward view of prices and the business strategic objectives. It is considered appropriate to assess the cash flows over a period longer than five years as this better reflects the long-term nature of energy market operations and governance, and of wind farm development lead times. The Renewables business is integral to the ScottishPower strategy to support the UK transition to net zero.

The value-in-use calculation is based on anticipated generation output over the expected lives of individual wind farm projects.

Cash inflows for all projects are based on anticipated generation output using historical trend information as well as technical assessment. The output is valued at forward power prices based on: observable market information where available; assumed continuing government support through ROCs, CfDs and other mechanisms; and on internal model assumptions. Cash outflows are based on planned operating and capital expenditure.

The main assumptions and basis for determining values assigned to the key assumptions are detailed below:

Main assumptions used for value-in-use calculations	Basis for determining values assigned to key assumptions
Discount rate (pre-tax): onshore 5.52% (2021 4.94%); and offshore 6.14% (2021 5.62%)	Discount rate is determined on the basis of market data and the divisional cost of capital and has increased in the year due to a rise in the risk free rate.
Forward price of power	Market quotes/management future expectations
Energy output	Theoretical maximum output less adjustments based on historical data (wind variability, outages and availability)
Inflation rate	Inflation is applied to key assumptions including operating costs, ROC buyout and CfD prices. Rates are based on macro-economic forecasts which predicted that high 2022 inflation would fall to 2.5% in 2025 and then to 2.0% in 2027.

The value-in-use calculation of Renewables exceeds the carrying amount.

The value-in-use calculations did not include the EGL, however, as the EGL only impacts certain wind farm assets, the potential reduction in revenue would be immaterial compared to the headroom.

The Group has also performed several sensitivity analyses of the impairment test result in relation to the key assumptions to which the value-in-use calculation is most sensitive. These tests included:

- a 100 basis point increase in the pre-tax discount rate. This is the equivalent of a 1% change in the risk-free interest rate which is considered a reasonably possible variation;
- a short-term 40% drop (2021 30%) in the power price per MWh (countering the increases in commodity prices experienced during 2021 and 2022), replaced by a reasonably possible variation of 10% for the period thereafter, (reflecting a less volatile market over the medium to longer term (and only applicable to production for which no long-term sales agreements have been entered into); and
- a 5% decline in energy output (considered reasonable to assess risk from unpredicted plant availability or weather issues).

After applying each sensitivity, there was significant headroom between the value-in-use calculations and the underlying book value of the assets.

As noted above, impairment cash flows utilise market-based views of commodity price forecasts, therefore incorporating current market expectations of how net zero targets will be achieved based on existing government legislation. However, estimates are not yet fully reflective of net zero scenarios as they do not factor in any prospective, yet to be announced legislative or market changes that would be required to meet temperature targets. Hence impairment cash flows are not based on net zero scenario forward prices.

Refer to Note 3 for further details of the Group's consideration of the impact of climate change on the cash flows used in the impairment tests.

7 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment

Year ended 31 December 2021	Note	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (b)(i)) £m	Plant in the course of construction £m	Other items of property, plant and equipment in the course of construction £m	Total £m
Cost:						
At 1 January 2021		18,327.1	271.7	1,084.4	20.1	19,703.3
Additions	(b) (ii)	73.6	19.2	772.8	21.3	886.9
Reassessment of decommissioning asset		(3.3)	–	–	–	(3.3)
Transfers from inventories		–	–	15.1	18.4	33.5
Transfers from plant in the course of construction to plant in use		780.9	(0.1)	(746.5)	(34.3)	–
Disposals		(48.8)	(8.3)	–	(1.0)	(58.1)
At 31 December 2021		19,129.5	282.5	1,125.8	24.5	20,562.3
Depreciation:						
At 1 January 2021		4,879.1	104.3	–	–	4,983.4
Charge for the year		582.8	17.5	–	–	600.3
Disposals		(40.3)	(8.3)	–	–	(48.6)
Impairment		–	0.1	–	–	0.1
At 31 December 2021		5,421.6	113.6	–	–	5,535.2
Net book value:						
At 31 December 2021		13,707.9	168.9	1,125.8	24.5	15,027.1
At 1 January 2021		13,448.0	167.4	1,084.4	20.1	14,719.9
The net book value of property, plant and equipment at 31 December 2021 is analysed as follows:						
Property, plant and equipment in use		13,707.9	168.9	–	–	13,876.8
Property, plant and equipment in the course of construction		–	–	1,125.8	24.5	1,150.3
		13,707.9	168.9	1,125.8	24.5	15,027.1

Year ended 31 December 2022	Notes	Total operating plant (Note (b)) £m	Other items of property, plant and equipment in use (Note (b)(i)) £m	Plant in the course of construction £m	Other items of property, plant and equipment in the course of construction £m	Total £m
Cost:						
At 1 January 2022		19,129.5	282.5	1,125.8	24.5	20,562.3
Additions	(b) (ii), (iii)	72.7	20.7	936.0	24.3	1,053.7
Reassessment of decommissioning asset		(179.1)	–	–	–	(179.1)
Transfers (to)/from inventories	(iv)	–	–	(51.4)	23.2	(28.2)
Transfers from plant in the course of construction to plant in use		763.8	–	(720.7)	(43.1)	–
Disposals		(149.2)	(1.9)	–	(1.3)	(152.4)
At 31 December 2022		**19,637.7**	**301.3**	**1,289.7**	**27.6**	**21,256.3**
Depreciation:						
At 1 January 2022		5,421.6	113.6	–	–	5,535.2
Charge for the year		612.9	17.3	–	–	630.2
Disposals		(134.8)	(1.9)	–	–	(136.7)
At 31 December 2022		**5,899.7**	**129.0**	–	–	**6,028.7**
Net book value:						
At 31 December 2022		**13,738.0**	**172.3**	**1,289.7**	**27.6**	**15,227.6**
At 1 January 2022		13,707.9	168.9	1,125.8	24.5	15,027.1
The net book value of property, plant and equipment at 31 December 2022 is analysed as follows:						
Property, plant and equipment in use		13,738.0	172.3	–	–	13,910.3
Property, plant and equipment in the course of construction		–	–	1,289.7	27.6	1,317.3
		13,738.0	**172.3**	**1,289.7**	**27.6**	**15,227.6**

7 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) The movements in total operating plant are analysed as follows:

Year ended 31 December 2021	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Smart meters and measuring devices £m	Other facilities (Note (v)) £m	Total operating plant £m
Cost:							
At 1 January 2021	5,940.0	35.7	3,406.1	8,155.1	511.9	278.3	18,327.1
Additions	6.2	–	–	8.2	44.8	14.4	73.6
Reassessment of decommissioning asset	(2.7)	(0.1)	(0.5)	–	–	–	(3.3)
Transfers from plant in the course of construction to plant in use	127.9	0.6	201.6	433.5	15.8	1.5	780.9
Disposals	(1.0)	(0.2)	(5.1)	(12.7)	(29.8)	–	(48.8)
At 31 December 2021	6,070.4	36.0	3,602.1	8,584.1	542.7	294.2	19,129.5
Depreciation:							
At 1 January 2021	1,371.9	20.1	730.4	2,387.4	251.3	118.0	4,879.1
Charge for the year	218.6	0.7	86.4	219.0	40.8	17.3	582.8
Disposals	(0.7)	(0.1)	(5.1)	(10.9)	(23.5)	–	(40.3)
At 31 December 2021	1,589.8	20.7	811.7	2,595.5	268.6	135.3	5,421.6
Net book value:							
At 31 December 2021	4,480.6	15.3	2,790.4	5,988.6	274.1	158.9	13,707.9
At 1 January 2021	4,568.1	15.6	2,675.7	5,767.7	260.6	160.3	13,448.0

Year ended 31 December 2022	Wind power plants £m	Gas storage facilities £m	Transmission facilities £m	Distribution facilities £m	Smart meters and measuring devices £m	Other facilities (Note (v)) £m	Total operating plant £m
Cost:							
At 1 January 2022	6,070.4	36.0	3,602.1	8,584.1	542.7	294.2	19,129.5
Additions	2.3	0.1	–	6.9	57.0	6.4	72.7
Reassessment of decommissioning asset	(161.4)	(0.2)	(17.5)	–	–	–	(179.1)
Transfers from plant in the course of construction to plant in use	30.3	0.3	194.7	461.5	22.1	54.9	763.8
Disposals	(2.3)	–	(23.4)	(59.6)	(36.8)	(27.1)	(149.2)
At 31 December 2022	**5,939.3**	**36.2**	**3,755.9**	**8,992.9**	**585.0**	**328.4**	**19,637.7**
Depreciation:							
At 1 January 2022	1,589.8	20.7	811.7	2,595.5	268.6	135.3	5,421.6
Charge for the year	228.3	0.7	90.9	228.4	44.5	20.1	612.9
Disposals	(1.4)	–	(22.7)	(55.6)	(28.0)	(27.1)	(134.8)
At 31 December 2022	**1,816.7**	**21.4**	**879.9**	**2,768.3**	**285.1**	**128.3**	**5,899.7**
Net book value:							
At 31 December 2022	**4,122.6**	**14.8**	**2,876.0**	**6,224.6**	**299.9**	**200.1**	**13,738.0**
At 1 January 2022	4,480.6	15.3	2,790.4	5,988.6	274.1	158.9	13,707.9

(i) Other items of property, plant and equipment in use comprises land and buildings, IT equipment and other assets. Included within this category is £6.5 million (2021 £6.4 million) relating to spend on non-operational sites which are not classified as held for sale in accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

(ii) Interest on the funding attributable to major capital projects was capitalised during the year at a rate of 2.3% (2021 1.3%).

(iii) During the year the Group acquired the entire share capital of a number of solar development entities, treated as asset acquisitions (refer to Appendix 1).

(iv) Transfers (to)/from inventories represents (£80.1) million of offshore transmission asset expenditure (refer to Note 2A2.2) and £51.9 million (2021 £33.5 million) of capitalised spare parts in Energy Networks.

(v) The Other facilities category of operating plant largely comprises smart meter infrastructure assets and Energy Networks communications facilities.

(vi) The cost of fully depreciated property, plant and equipment still in use at 31 December 2022 was £440.3 million (2021 £512.0 million).

(vii) Included within Other operating results in the Income statement for the year ended 31 December 2022 is £0.7 million (2021 £0.8 million) relating to compensation receivable from third parties for items of property, plant and equipment that were impaired, lost or given up.

(viii) Included within the cost of property, plant and equipment at 31 December 2022 are assets in use not subject to depreciation, being land, of £53.9 million (2021 £59.1 million).

(ix) Included in Transmission facilities and Other items of property, plant and equipment in use are assets with a carrying amount of £1.2 million (2021 £1.3 million) and £0.3 million (2021 £0.3 million) respectively which the Group leases to third parties via operating leases.

7 PROPERTY, PLANT AND EQUIPMENT *continued*

(c) Capital commitments

	2022						
	2023 £m	**2024 £m**	**2025 £m**	**2026 £m**	**2027 £m**	**2028 and thereafter £m**	**Total £m**
Contracted but not provided	**661.9**	**255.8**	**134.3**	**58.0**	**17.9**	**1.6**	**1,129.5**

	2021						
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Contracted but not provided	375.0	60.4	20.3	9.1	0.9	0.4	466.1

(d) Research and development expenditure

The amount of research and development expenditure recognised as an expense during the year was £5.7 million (2021 £4.4 million).

8 LEASING

A LESSEE

The Group leases many assets including land, buildings and vehicles. Information about leases for which the Group is a lessee is presented below.

(a) Nature of leases

Land

The Group holds agreements to lease land (including seabed) and for the assignment of rights to use land, primarily for operational assets, (mainly wind farms), with typical lease terms running from two to 50 years. Certain leases contain the right to extend the existing lease term by up to 50 years; others can be terminated with appropriate notice, generally up to 24 months.

Buildings

The Group leases buildings primarily for its office space, operational depots and retail space (which is sub-let). The leases typically have lease terms running from ten to 25 years. Certain leases have options to extend the term by up to 25 years at the end of the term; others have options to terminate subject to a notice period of up to five years or at agreed break points.

The lease for the head office building has a 25 year term ending in 2041 at which point the Group has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated increase in the lease liability would be £5.7 million and a further £10.0 million respectively.

The Group sub-leases some of its properties under operating leases (refer to Note 8B). Where the unavoidable costs of meeting the obligations under these contracts exceed the economic benefits expected to be received under them, the right-of-use assets have been appropriately impaired.

Vehicles

The Group leases vehicles with lease terms of generally between two and eight years, primarily being pool vehicles to mobilise its operational staff and other specialist vehicles. Certain leases can be extended by up to one year. Certain vehicle leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Other equipment

The Group leases operating plant and office equipment, with lease terms of up to 42 years. Certain leases have rights to extend the term by up to six years or terminate the lease giving appropriate notice. Certain plant and equipment leases are considered short-term and the Group has elected not to recognise right-of-use assets and lease liabilities for these leases.

Variable lease payments

Some land leases, particularly those for land on which wind farms have been built, contain variable lease payments that are based primarily on the output from the wind farm. Also certain building leases contain variable lease payments that are based on the building services supplied. These payment terms are common for both of these types of leases. The fixed annual payments for the year were £44.3 million compared to variable payments of £14.5 million. Despite the future planned growth of the Renewables business, the relative proportions of fixed and variable lease payments are not expected to be materially different in future years.

Extension options

Some leases, in particular of land and buildings, contain extension options exercisable by the Group at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Group seeks to include extension options in leases to provide operational flexibility. Those options held are exercisable only by the Group and not by the lessors. At lease commencement, the Group will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Other information

The Group has not committed to any leases that have not yet commenced. The Group has no contracts containing residual value guarantee, no leases subject to significant restrictions or covenants, and no sale and leaseback transactions.

8 LEASING *continued*

A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2021	Notes	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2021		366.3	104.9	36.4	3.0	510.6
Additions		8.0	7.3	4.6	–	19.9
Adjustments for changes in liabilities	(i)	11.0	3.3	0.6	1.3	16.2
Disposals		(0.3)	(1.3)	(0.2)	–	(1.8)
Impairment	(ii)	–	(0.6)	–	–	(0.6)
At 31 December 2021		385.0	113.6	41.4	4.3	544.3
Depreciation:						
At 1 January 2021		27.6	14.8	14.6	1.3	58.3
Charge for the year		16.3	7.0	7.6	0.7	31.6
Disposals		–	(0.8)	(0.1)	–	(0.9)
At 31 December 2021		43.9	21.0	22.1	2.0	89.0
Net book value:						
At 31 December 2021		341.1	92.6	19.3	2.3	455.3
At 1 January 2021		338.7	90.1	21.8	1.7	452.3

Year ended 31 December 2022	Note	Land £m	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost:						
At 1 January 2022		385.0	113.6	41.4	4.3	544.3
Additions		5.2	4.1	4.5	–	13.8
Adjustments for changes in liabilities	(i)	13.8	10.3	0.4	(0.1)	24.4
At 31 December 2022		**404.0**	**128.0**	**46.3**	**4.2**	**582.5**
Depreciation:						
At 1 January 2022		43.9	21.0	22.1	2.0	89.0
Charge for the year		18.2	7.3	7.7	0.7	33.9
At 31 December 2022		**62.1**	**28.3**	**29.8**	**2.7**	**122.9**
Net book value:						
At 31 December 2022		**341.9**	**99.7**	**16.5**	**1.5**	**459.6**
At 1 January 2022		341.1	92.6	19.3	2.3	455.3

(i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(ii) The £0.6 million impairment charge for the year ended 31 December 2021 related to additions to a sub-let property, for which the right-of-use asset has already been fully impaired.

(iii) There are no right-of-use assets measured at revalued amounts.

(c) Lease liabilities

The following table sets out a maturity analysis of non-derivative lease liabilities, showing the undiscounted payments to be made after the reporting date.

	2022 £m	2021 £m
Less than one year	50.2	45.3
One to five years	161.3	151.3
More than five years	531.1	537.5
Total undiscounted lease liabilities at 31 December	**742.6**	734.1
Finance cost	(218.8)	(223.4)
Total discounted lease liabilities	**523.8**	510.7

Analysis of total lease liabilities		
Non-current	487.8	477.5
Current	36.0	33.2
Total	**523.8**	510.7

Details of the Group's risk management strategy for liquidity risks inherent in its lease liability are described at Note 11(e)C1.

8 LEASING *continued*

A LESSEE *continued*

(d) Amounts recognised in Income statement

	Note	2022 £m	2021 £m
Interest on lease liabilities		**(19.2)**	(17.7)
Variable lease payments not included in the measurement of lease liabilities		**(14.5)**	(17.4)
Income from sub-leasing right-of-use assets		**0.2**	0.6
Expenses relating to short-term leases	(i)	**(10.8)**	(6.0)

(i) This charge relates to leases for plant and equipment, and vehicles. Future commitments relating to the portfolio of short-term leases are not expected to be materially different from the expense charged in the current year.

(e) Amounts recognised in the Statement of cash flows

	2022 £m	2021 £m
Payments of lease liabilities	(25.9)	(23.8)
Interest paid on lease liabilities	(18.4)	(15.2)
Payments for variable lease components	(14.5)	(17.4)
Payments for short-term leases	(9.1)	(5.1)
Total cash outflow for leases	**(67.9)**	(61.5)

B LESSOR

The Group has contracts to lease land and buildings which have been classified as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets. These leases typically have terms of between one and 23 years, running to between 2023 and 2029.

Lease income recognised by the Group during 2022 was £2.9 million (2021 £2.8 million). No income has been recognised in either year relating to variable lease payments that do not depend on an index or rate.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2022 £m	2021 £m
Less than one year	1.6	2.4
One to two years	0.8	1.9
Two to three years	0.2	0.3
Three to four years	0.2	0.2
Four to five years	0.2	0.2
More than five years	0.3	0.3
Total undiscounted lease payments	**3.3**	5.3

Details of the Group's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 11(e)C1.

9 RETIREMENT BENEFIT OBLIGATIONS

A ANALYSIS OF BALANCE

The amounts recognised in the Statement of financial position in respect of the net retirement benefit assets/(obligations) are detailed below:

	2022 £m	2021 £m
Non-current assets	**341.9**	291.7
Non-current liabilities	**(101.9)**	(99.5)

B GROUP PENSION ARRANGEMENTS

The Group operates the following pension schemes for staff:

Scheme	Scottish Power Pension Scheme ("SPPS")	Manweb Group of Electricity Supply Pension Scheme ("Manweb")	Stakeholder Pension Plan
Type of benefit	Final salary	Final salary	Defined contribution
New entrants	No	No	Yes
Funded separately from Group assets	Yes	Yes	Yes
Administration method	Trustee board	Trustee board	Insurance contract
Member contributions	5% of salary	5.5% of salary	5% of salary with the option to change the contribution rate
How Group contributions are determined	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2021)	Agreement of Trustee and Group following actuarial valuation (last valuation: 31 March 2021)	Defined
Current actual Group contributions	53.4% of salary	52.9% of salary	Up to 10% of salary for the majority of employees
Special contributions during year ended 31 December 2022	£45.5 million	£46.5 million	None
Special contributions planned for year ending 31 December 2023	£42.1 million	£49.8 million	None
Pension charge	Based on advice of independent qualified actuary	Based on advice of independent qualified actuary	Equal to actual Group contributions in the year (2022 £17.3 million, 2021 £15.0 million)

The age profile of the two final salary schemes is expected to rise over time, due to the schemes being closed to new entrants. All else being equal, this will, in turn, result in increasing service costs for these two schemes due to the actuarial valuation method used (the projected unit method). The Group believes that the projected unit method continues to be appropriate at present, and provides a reasonable basis for assessing the Group's final salary pension costs.

The Group also operates an Unfunded Unapproved Retirement Benefit Scheme ("UURBS") for former senior executives' benefit promises in excess of limits set by the UK taxation authorities. The UURBS has no invested assets, and the Group has provided £2.9 million as at 31 December 2022 (2021 £4.9 million) for the benefit promises which will ultimately be paid by the Group.

During 2022, as a consequence of the high inflationary environment, the Group recognised that it has a 'best endeavours' obligation to increase pensions for members of Manweb in line with uncapped Retail Price Index ("RPI") inflation. This obligation has previously been communicated to members, is referenced in the scheme funding documents and has been in place for some time. Therefore, the Group has determined that it has a constructive obligation to provide this benefit. The pension increase assumption for Manweb has been updated to reflect the commitment and the impact of this obligation has been to increase the defined benefit obligation by £15.0 million (Refer to Note 9E1).

Prior to 2021, there had been an established practice within the Final Salary Life Plan ("FSLP") section of SPPS to apply RPI revaluations on deferment. However, the rules for the FSLP section provide for deferred benefits to be revalued in accordance with pensions legislation, i.e. statutory revaluation. Given the flexibility that exists within the rules for the FSLP section, in 2021 the Company and Trustee agreed that the Company will no longer augment benefits in the FSLP section to provide RPI deferred revaluation but will instead revert to statutory revaluation. This plan amendment was communicated to the deferred members of the FSLP section on 17 November 2021 and the associated past service gain of £85.7 million was recognised at that date.

C GROUP PENSION SCHEME GOVERNANCE

As described in the table above, the Group operates two defined benefit pension schemes. Active members continue to accrue benefits in the schemes, which are based on final pensionable salary. The two schemes are closed to new entrants.

The schemes are approved by HMRC and subject to standard UK pensions and tax law. The defined benefit schemes are subject to the scheme funding requirements as set out in section 224 of the Pensions Act 2004. In accordance with the scheme funding requirements, an actuarial funding valuation is carried out at least triennially to determine the appropriate level of ongoing contributions for both future service and a recovery plan in respect of any deficit at the valuation date. These actuarial valuations will be based on assumptions agreed between the Trustees and the Group. The assumptions used to calculate liabilities (or technical provisions) in a triennial funding valuation may differ from those used when accounting under IAS 19 'Employee Benefits' ("IAS 19"). The Trustees are required to set assumptions prudently, whereas IAS 19 assumptions are set with regard to the Group's best estimates. Additionally, the discount rate used to value technical provisions in a triennial valuation will take into account the scheme investment strategy, rather than being based on the yield on AA corporate bonds as required under IAS 19. The most recent completed actuarial valuations were as at the effective date of 31 March 2021.

In accordance with UK trust and pensions law, the defined benefit pension schemes are governed by their respective Board of Trustees. Although the Group meets the financial cost of running the schemes, the Trustees are responsible for the management and governance of the schemes, and have a duty to act in the best interests of the members.

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

C GROUP PENSION SCHEME GOVERNANCE *continued*

The strategic management of the assets is the responsibility of the Trustees acting on expert advice. The Trustees take advice from the schemes' actuaries and investment advisers with a view to investing the schemes' assets in a manner that is appropriate to the nature and duration of the expected future retirement and death benefits payable from the schemes. In consultation with the Group, the Trustees have set out target investment strategies for the schemes of 66% matching and 34% growth assets. In terms of the matching portfolio, the schemes utilise a Liability Driven Investment ("LDI") strategy. The aim of the LDI portfolio is to invest in a range of assets (mostly bonds) which broadly match the expected future benefit payments from the schemes.

In addition, the Trustee of SPPS and the Trustee of Manweb implemented longevity swaps in December 2014 and July 2016 respectively. For further details, refer to the Mortality risk section that follows.

Since the outbreak of the COVID-19 pandemic in March 2020, the Trustees have monitored the impact on the pension schemes from an operational and investment perspective. The Company has continued to operate effectively and the employer covenant remains strong despite significant market volatility towards the end of 2022. Although market risk increased following the pandemic and given economic conditions during 2022, there has not been a significant issue from either a net asset valuation perspective or a liquidity perspective. In particular, the schemes did not need to borrow from the Company during 2022. Hence, contributions to the schemes continue to be received in line with the latest agreed schedule of contributions. The latest payment schedules between the Trustees and the Company were agreed with effect from 1 July 2022.

D RISK MANAGEMENT

The defined benefit schemes expose the Group to actuarial risks and details of the specific risks and how they are managed are described below.

D1 INVESTMENT (MARKET) RISK

There is a risk relating to changes in the value of the portfolio due to movements in the market value of the assets. To the extent that there is a mismatch between the investment strategy and the overall level and profile of the liabilities, this can lead to volatility in the funding level, and as the portfolio matures there is a risk of not being able to reinvest assets at the assumed rates. The Trustees utilise an LDI strategy which aims to invest 66% of the assets in matching LDIs such as bonds, which broadly match the nature and profile of the future expected benefit payments from the schemes.

The underlying LDI strategy utilises investment in fixed-interest and index-linked government securities, cash, and derivative instruments such as interest and inflation rate swaps. The objective of the LDI strategy is to manage the schemes' interest and inflation rate exposure relative to the interest and inflation rate exposure of the liability cash flows. Hence, the strategy provides a hedge against changes in scheme liabilities resulting from interest and inflation rate movements (see further detail below). LDI assets are valued in accordance with fair value principles. For instance, valuations will be based on quoted prices where available (e.g. fixed-interest securities) and pricing models using observable market inputs (e.g. in relation to swaps and other derivative instruments). The Trustees have further diversified the market risk in the growth portfolio across multiple asset types, such as equities, property, infrastructure, and private and mezzanine debt. As with LDI, growth assets are valued based on quoted prices where available (e.g. quoted equities and corporate bonds). Where investments do not have a market quotable price available, such as level 3 assets, the fair values are derived in accordance with IFRS 13 'Fair Value Measurement' ("IFRS 13") and provided by the fund manager. Through diversification, the specific risk associated with individual investments is mostly mitigated and expected volatility of returns is reduced. In addition, the Trustees review the investment strategies on a regular basis to ensure that it remains appropriate and in particular in response to legislative changes, a material change in the schemes' funding levels or changes in the attitude to risk of the Trustees or Group.

Each of the pension schemes is invested in an appropriately diversified range of assets. The broad proportion of each asset class in which the schemes aim to be invested are as shown in the table below, however it is important to note that this may vary from time to time as markets change and cash may be held for strategic reasons. During the year, the schemes have reduced their holdings in growth assets due to having met several de-risking thresholds following improvements in funding levels. Additional information on the schemes' investment strategies, including ESG considerations, can be found in each of the Statement of investment principles at www.sppensions.com.

	2022	2021
Equities	–	9%
Infrastructure	–	1%
Liability driven investment	**66%**	56%
Property	**8%**	8%
Mezzanine/Private debt	**26%**	15%
Diversified growth funds	–	5%
Multi-asset credit	–	6%
	100%	100%

D2 MORTALITY RISK

The assumptions adopted by the Group make allowance for future improvements in life expectancy. There is a risk that life expectancy improves faster than assumed and that benefits are paid for longer than expected, thereby increasing the cost of the schemes. The Group and the Trustees regularly review the actual scheme mortality experience to minimise the risk of using an inappropriate assumption. In general, the Trustees will also use prudent assumptions when deriving the triennial actuarial valuation basis used for funding requirements.

In December 2014 and July 2016, the Trustees of SPPS and Manweb (respectively) implemented a longevity swap in respect of the current pensioners at that time. The swap removes the previously unhedged longevity risk for the pensioners (and their contingent spouses) by hedging the risk of members covered by the contract living longer than expected (who constitute approximately 40% and 55% of the total liability of the SPPS and Manweb schemes respectively). The swaps are an insurance contract between both SPPS and Manweb and the counterparty insurer. Counterparty risk is mitigated by both SPPS and Manweb and the counterparty posting collateral to the other party on a daily basis to account for market movements in the value of the derivatives held.

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

D3 CURRENCY RISK

The Trustees have appointed Blackrock to manage the currency hedging mandates for SPPS and Manweb. Through the use of currency forwards, approximately 75% of the currency exposure inherent in the overseas equity, euro-denominated infrastructure and private debt instruments, and US dollar-denominated mezzanine and private debt instruments is hedged.

D4 INTEREST RATE RISK

A fall in the yield on government bonds increases both the liabilities and assets of the schemes. To the extent that the assets do not fully match the nature and duration of the liabilities, this could lead to a worsening in the funding position of the schemes. The Trustees currently target 66% of the schemes' investments in LDI which include matching assets such as fixed-interest bonds. The interest rate hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in yields. The current target is for 90% and 75% of the interest rate risk (for SPPS and Manweb respectively) to be hedged on a technical provisions basis. Under the de-risking framework agreed between the Group and the Trustees, the level of interest rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

D5 INFLATION RATE RISK

The majority of the schemes' liabilities increase in line with inflation, subject to relevant caps and collars. To the extent that inflation is higher than expected, this will increase the liabilities of the schemes. The schemes' target investment strategy is to invest 66% of the portfolio in LDI investments which will include bonds that are also linked to inflation. The inflation hedging strategy adopted within the LDI portfolio provides partial protection against the impact of changes in inflation. The current target is for 90% and 75% of the inflation rate risk (for SPPS and Manweb respectively) to be hedged on a technical provisions basis. Under the de-risking framework agreed between the Group and the Trustees, the level of inflation rate hedging will be increased when market conditions are deemed favourable. As the level of hedging increases, funding level volatility will be further reduced.

E ACTUARIAL ASSUMPTIONS

E1 PENSION SCHEMES ASSUMPTIONS

The assumptions used by the independent actuary for the pension arrangements, for both schemes, were developed by management with the assistance of the independent actuary.

(a) The table below details the assumptions used by the independent actuary for the pension scheme arrangements and are expressed as weighted averages:

	2022	2021
Rate of increase in salaries (Note (i))	**3.2% p.a.**	3.4% p.a.
Rate of increase in deferred pensions (RPI capped at 5% p.a.) (Note (ii))	**3.2% p.a.**	3.4% p.a.
Rate of increase to pensions in payment (RPI capped at 5% p.a.) (Note (iii))	**3.1% p.a.**	3.3% p.a.
Discount rate	**4.8% p.a.**	2.0% p.a.
Inflation assumption – RPI	**3.2% p.a.**	3.4% p.a.
Inflation assumption – CPI	**2.6% p.a.**	2.8% p.a.

(i) For members of the FSLP section of the SPPS scheme, the 2022 salary assumption is 3.4% p.a. (2021 3.6% p.a.).
(ii) For members of the FSLP section of the SPPS scheme, deferred pensions are increased with reference to statutory revaluation.
(iii) For members of Manweb, the majority of pensions in payment are assumed to increase in line with RPI without a cap applied.

Most benefits in the schemes increase in deferment or in retirement, with the rate and index of increase determined by when the benefit was accrued by the member and in which section. As stated in the scheme rules, the vast majority of benefits increase in line with RPI inflation subject to various floors and caps. A very small proportion of benefits, namely guaranteed minimum pension ("GMP") benefits accrued between April 1988 and April 1997, increase in retirement in line with CPI inflation with a 0% floor and a 3% cap applied on an annual basis.

(b) The weighted average life expectancies for mortality used to determine the benefit obligations were as follows:

	2022		2021	
At 31 December	**Male Years**	**Female Years**	Male Years	Female Years
Member age 63 (current life expectancy)	**24.0**	**25.7**	23.9	25.7
Member age 45 (life expectancy at age 63)	**25.2**	**27.1**	25.1	27.1

(c) The post-retirement mortality assumptions are as follows:

	2022	2021
Base tables	95% S2PMA/100% S2PFA (ill-health members have a +6-year age rating)	95% S2PMA/100% S2PFA (ill-health members have a +6-year age rating)
Allowance for future improvements	CMI* 2021 with 7.0 smoothing parameter 0.25% initial addition parameter 10% w2020 parameter 1.25% long-term improvement rate	CMI 2020 with 7.0 smoothing parameter 0.25% initial addition parameter 10% w2020 parameter 1.25% long-term improvement rate

* CMI – Continuous mortality investigations

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

E ACTUARIAL ASSUMPTIONS *continued*

E1 PENSION SCHEMES ASSUMPTIONS *continued*

The post retirement mortality assumptions have been set as follows:

- Base tables: review evidence that has emerged since the previous year end, including the impact of actual scheme experience to December 2021.
- Future mortality improvements: review the latest CMI model and consider if any new parameters have been introduced or changes made to core parameters and carry out an analysis to ensure that these are set to be appropriate for the scheme's population.

The above reviews have led to the adoption of the latest 2021 CMI future improvements model. Noting that the impacts of COVID-19 have persisted into 2022 and the emergence of new variants, the Company expects that mortality improvements will be suppressed in the short term and has therefore set the new CMI w2020 parameter to 10% (the weight placed on the excess deaths observed during 2020).

E2 IMPACT OF CHANGING MATERIAL ASSUMPTIONS ON THE DEFINED BENEFIT OBLIGATIONS

The sensitivity analysis below has been calculated by varying the critical actuarial assumption whilst keeping all other assumptions constant. Liabilities are calculated using the same method and membership data as that used to derive the defined benefit obligation. As well as impacting on salary growth, a change in inflation also impacts on other inflation-linked assumptions such as increases to deferred pensions and pensions in payment. This sensitivity applies to the defined benefit obligations only, and not to the net defined benefit pension asset/liability in its entirety, the measurement of which is driven by a number of factors including, in addition to the assumptions below, the fair value of scheme assets. There has been no change to the method year-on-year to assess the sensitivity of the results to changes in the critical actuarial assumptions.

Possible changes as at 31 December to one of the actuarial assumptions would have affected the defined benefit obligations as noted below (Additional sensitivities for 2022 have been included reflecting the volatile market conditions).

	Increase/(decrease) in defined benefit obligations			
	2022			2021
Impact of changing material assumptions	**£m**	**£m**	**£m**	£m
Rate of increase/decrease in inflation	**1.0%**	**0.5%**	**0.1%**	0.1%
Increase by	**357.3**	**180.2**	**32.5**	86.9
Decrease by	**(334.0)**	**(177.1)**	**(34.2)**	(84.6)
Rate of increase/decrease in discount rate	**1.0%**	**0.5%**	**0.25%**	0.25%
Increase by	**(395.3)**	**(208.5)**	**(107.2)**	(227.3)
Decrease by	**496.9**	**233.5**	**113.5**	244.6
Assumed life expectancy				
Increase mortality by one additional year			**117.2**	199.7

E3 ANALYSIS OF SCHEME ASSETS

E3.1 FAIR VALUE OF PLAN ASSETS

The following table provides information on the composition and fair value of plan assets of the SPPS and Manweb schemes.

	2022				2021			
	SPPS £m	**Manweb £m**	**Total £m**	**Plan asset allocation %**	SPPS £m	Manweb £m	Total £m	Plan asset allocation %
Equities	**34.3**	**57.8**	**92.1**	**2.7%**	268.2	116.8	385.0	7.4%
Infrastructure (Note (i))	**–**	**–**	**–**	**–**	91.1	27.4	118.5	2.3%
Liability driven investment instrument (Note (ii))	**1,223.4**	**175.9**	**1,399.3**	**40.8%**	1,822.1	425.5	2,247.6	43.4%
Property	**195.2**	**87.5**	**282.7**	**8.2%**	215.2	99.3	314.5	6.1%
Cash	**97.1**	**59.8**	**156.9**	**4.6%**	44.7	17.8	62.5	1.2%
Mezzanine/private debt	**902.1**	**281.7**	**1,183.8**	**34.6%**	700.1	212.3	912.4	17.7%
Diversified growth funds (Note (iii))	**–**	**–**	**–**	**–**	184.3	51.4	235.7	4.5%
Multi-asset credit (Note (iii))	**–**	**–**	**–**	**–**	298.0	30.7	328.7	6.3%
Longevity swap fair value	**(172.0)**	**(87.9)**	**(259.9)**	**(7.6)%**	(289.6)	(161.8)	(451.4)	(8.7)%
Longevity swap collateral	**378.3**	**194.9**	**573.2**	**16.7%**	663.6	364.1	1,027.7	19.8%
Fair value of scheme assets	**2,658.4**	**769.7**	**3,428.1**	**100.0%**	3,997.7	1,183.5	5,181.2	100.0%

(i) At 31 December 2022, investments previously categorised as Infrastructure have been recategorised as private debt. This change is because management views the nature of these assets in terms of valuation methodology and complexity as being similar to each other.

(ii) At 31 December 2022, liability driven investment instruments include £362.8 million of cash for SPPS and £10.0 million of cash for Manweb.

(iii) Both the SPPS and Manweb schemes disinvested from diversified growth funds and multi-asset credit funds during 2022.

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

E3 ANALYSIS OF SCHEME ASSETS *continued*

E3.1 FAIR VALUE OF PLAN ASSETS *continued*

SPPS and Manweb investment strategies are similar and there is no significant difference in risk profiles due to either geography or industry type. The schemes' assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. Neither of the schemes held ScottishPower or Iberdrola shares in 2022 or 2021.

As at 31 December 2022, 2.7% (2021 7.4%) of plan assets have quoted prices in active markets. Markets are considered active if transactions for the asset take place with sufficient frequency and volume to provide pricing information at the measurement date and on an ongoing basis. The remaining plan assets do not have quoted prices in active markets. Of these plan assets, £1,779.8 million (2021 £1,053.9 million) are level 3 assets, which are discussed below.

E3.2 VALUATION OF LEVEL 3 PLAN ASSETS

Level 3 assets are investments where a market quotable price is not available. The fair values of these assets are derived in accordance with IFRS 13 and provided by the relevant fund manager. As noted below, year end valuations for some level 3 assets may be estimated and are significant accounting estimates. Final audited year end valuations for these assets are typically not available until several months after the year end. Additionally, as 31 December 2022 was not a working day, some of the asset values used are as at 30 December 2022, however there is not a material differential as a result of this. As part of the controls carried out on these assets, a retrospective review is carried out for the purposes of these accounts and material valuation differences updated.

(a) Infrastructure

Fair values at 31 December 2022 are estimated based on the most recently available quarterly valuations (30 September 2022) adjusted where relevant for cash flows to year end. The fund manager carried out internal valuations of the investments to assess the fair values at 30 September 2022. In respect of equity investments, cash flows forecasted over the life of the asset were discounted to derive a valuation at the relevant reporting date, or where available, valuations were based on contractual sales values. Hence significant assumptions will relate to the expected cash flows and discount rates. The fund manager has stated that despite the changes in market conditions over Q4 2022, they do not expect material movements in valuation. As at the relevant valuation date, the fund valuation was not subject to a material adjustment in relation to this impact.

(b) Property

An independent market valuation of the direct property investments as at 31 December 2022 is provided by BNP Paribas with reference to comparable market transactions. For instance, a key assumption is the market rent and hence yields available. Accordingly, the direct property valuation is not reported as being subject to 'material valuation uncertainty'. The fair value of the indirect property assets is based on the most recent available fund valuation at 31 December 2022 adjusted for cash flows to year end.

(c) Mezzanine/private debt

Fair values are based on the most recently available quarterly valuations (30 September 2022) adjusted where relevant for cash flows to year end. Various different valuation methods are utilised by the mezzanine/private debt managers as appropriate for the underlying investment including discounted cash flows, enterprise value, cost plus accrued interest and external pricing. For instance, where internal cash flow modelling has been performed, significant assumptions will include discount rate and, expected cash flows. No material adjustments to the relevant quarterly valuations have been noted by the fund managers.

(d) Longevity swap

During 2022, an independent assessment of the fair values of the swaps was carried out on behalf of the Trustees by the actuary for the schemes for the purposes of updating the reported values in the scheme accounts as at 31 March 2022. Following a review by the Group of this valuation methodology, it was determined that this methodology, and consequently the fair values reported at 31 March 2022, were suitable for reporting under IAS 19 in accordance with IFRS 13. The fair value assessment carried out by the independent actuary allows for the difference between the present value of the known cash flows under the original fixed leg of the swap using longevity assumptions agreed at inception and the present value of the projected cash flows under the floating leg. The projections underlying the floating leg of the swap allow for the schemes' actual mortality experience since inception, more up to date data on current swap population and, more up to date industry expectations of future longevity experience and an allowance for the fees the Company expects the market to charge at the current time.

Therefore, for the purposes of the 31 December 2022 valuation, the Group has reset the 31 March 2022 fair value in line with this figure and adjusted to the year end in line with movements in the fixed and floating legs of the swaps as calculated under the existing collateral model valuations. Hence the valuation takes into consideration current market conditions at the reporting date. This valuation approach is consistent with the methodology adopted for the 2021 year end.

As at 31 December 2022, the fair values of the longevity swap liabilities for SPPS and Manweb were £(172.0) million (2021 £(289.6) million) and £(87.9) million (2021 £(161.8) million) respectively.

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

F MOVEMENTS IN THE DEFINED BENEFIT OBLIGATIONS AND SCHEME ASSETS DURING THE YEAR

(a) Movements in the present value of the defined benefit obligations and scheme assets are as follows:

	2022			2021		
	Defined benefit obligations £m	**Scheme assets £m**	**Total £m**	Defined benefit obligations £m	Scheme assets £m	Total £m
At 1 January	**(4,989.0)**	**5,181.2**	**192.2**	(5,616.2)	5,057.6	(558.6)
Items recognised in the Consolidated income statement						
Current service cost	**(47.6)**	**–**	**(47.6)**	(56.4)	–	(56.4)
Past service costs credit/(charge) (Note (i))	**5.2**	**–**	**5.2**	(8.7)	–	(8.7)
Past service costs credit – FSLP revaluation (Note (ii))	**–**	**–**	**–**	85.7	–	85.7
Interest (expense)/income (Note (iii))	**(96.3)**	**101.3**	**5.0**	(76.7)	70.2	(6.5)
Administration expenses	**–**	**(3.9)**	**(3.9)**	–	(4.3)	(4.3)
	(138.7)	**97.4**	**(41.3)**	(56.1)	65.9	9.8
Items recognised in the Consolidated statement of comprehensive income						
Actuarial gains arising from changes in demographic assumptions	**95.0**	**–**	**95.0**	90.0	–	90.0
Actuarial gains arising from changes in financial assumptions (Note (iv))	**1,803.3**	**–**	**1,803.3**	224.4	–	224.4
Actuarial (losses)/gains arising from changes of the scheme experience different to that assumed	**(215.8)**	**–**	**(215.8)**	98.4	–	98.4
Return on assets relative to interest income (Note (iii))	**–**	**(1,732.0)**	**(1,732.0)**	–	173.2	173.2
	1,682.5	**(1,732.0)**	**(49.5)**	412.8	173.2	586.0
Other movements						
Employer contributions	**–**	**138.6**	**138.6**	–	155.0	155.0
Benefits paid	**261.9**	**(261.9)**	**–**	275.5	(275.5)	–
Scheme members' contributions	**(4.8)**	**4.8**	**–**	(5.0)	5.0	–
	257.1	**(118.5)**	**138.6**	270.5	(115.5)	155.0
At 31 December	**(3,188.1)**	**3,428.1**	**240.0**	(4,989.0)	5,181.2	192.2

(i) The past service costs credit of £5.2 million for the year ended 31 December 2022 comprises a true-up of £(5.2) million in relation to the prior year provisions for restructuring costs (2021 past service costs charge of £8.7 million for expected restructuring costs in 2022).

(ii) During 2021, the Group and the Trustee have agreed that the Group will no longer augment benefits in the FSLP section of SPPS to provide RPI deferred revaluation and will instead revert to statutory revaluation for all service and will apply this across all deferred revaluation applicable to the member.

As a result, there was a reduction in the liabilities of £85.7 million in respect of non-pensioner members of the FSLP section of SPPS, calculated using market conditions on the date that members were informed of the change.

(iii) The actual loss on scheme assets amounted to £(1,630.7) million (2021 return of £243.4 million). As noted previously, the schemes' assets are largely hedged against movements in interest rates and inflation. Therefore the main reason for this reduction in asset values is the increase in bond yields and reduction in long-term inflation expectations over 2022.

(iv) During 2022, increases in UK corporate bond yields, which underpin the discount rate assumption, and a reduction in long-term inflation expectations resulted in a reduction in the defined benefit obligations of £1,803.3 million.

(b) Analysis of the defined benefit obligations and scheme assets at 31 December:

	2022			2021		
	Defined benefit obligations £m	**Scheme assets £m**	**Total £m**	Defined benefit obligations £m	Scheme assets £m	Total £m
Present value of funded obligations/fair value of scheme assets	**(3,185.2)**	**3,428.1**	**242.9**	(4,984.1)	5,181.2	197.1
Present value of unfunded obligations	**(2.9)**	**–**	**(2.9)**	(4.9)	–	(4.9)
Total net asset			**240.0**			192.2

(c) The net asset/(liability) at 31 December is analysed by scheme as follows:

	2022 £m	2021 £m
Included on the Statement of financial position as non-current assets		
SPPS	**341.9**	291.7
Included on the Statement of financial position as non-current liabilities		
Manweb and UURBS	**(101.9)**	(99.5)
Total net asset	**240.0**	192.2

9 RETIREMENT BENEFIT OBLIGATIONS *continued*

G ADDITIONAL INFORMATION

G1 FUTURE CONTRIBUTIONS

The Group expects to contribute £143.1 million to the pension schemes in the year ending 31 December 2023. Based on the valuation at 31 March 2021, similar levels of contributions are expected in future years.

G2 MATURITY PROFILE OF THE DEFINED BENEFIT OBLIGATIONS

The following table provides expected future cash flow projections for both pension schemes based on current member data. These cash flows reflect expected benefit payment amounts based on the underlying demographic assumptions adopted at 31 December 2022. Cash flows are expected to peak in 2033 for Manweb and 2034 for SPPS with benefits payments extending to approximately 2080 for Manweb and 2090 for SPPS.

	Expected future cash flows (£m)				
Year	**2023**	**2024**	**2025**	**2026**	**2027**
SPPS	120.9	120.6	125.9	130.2	130.4
Manweb	45.9	46.4	47.2	48.4	51.5

Liabilities have been calculated as at 31 December 2022 based on membership data provided as at 30 April 2021.

G3 ANALYSIS OF THE DEFINED BENEFIT OBLIGATIONS BY MEMBER STATUS

	2022		2021	
At 31 December	**SPPS %**	**Manweb %**	SPPS %	Manweb %
Active members	**22**	**20**	28	27
Deferred members	**15**	**9**	17	10
Pensioners	**63**	**71**	55	63
The weighted average duration of the defined benefit obligations as at 31 December	**14.5 years**	**12.5 years**	19 years	17 years

The weighted average duration of the defined benefit obligations for both schemes has reduced over the year primarily due to an increase in the discount rate as a result of increases in UK corporate bond yields.

G4 MINIMUM FUNDING REQUIREMENT

Under the rules of each scheme, the Trustees cannot unilaterally wind-up the schemes and the Group would be able to assume gradual settlement of the liabilities over time until all members have left. Having then triggered a wind-up, any remaining surplus would revert to the Group. Furthermore, the power to amend the rules of each scheme lies with the Group, and the Trustees cannot unilaterally improve benefits under the schemes. Therefore, the Group has an unconditional right to a refund under IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' and thus there is no requirement to restrict any IAS 19 surplus, should it arise, nor to recognise any additional liabilities in respect of minimum funding requirements.

10 INVESTMENTS IN JOINT ARRANGEMENTS

(a) Movements in investments in joint ventures are analysed as follows:

	Shares £m
1 January 2021 and 31 December 2021	7.7
Share of result for year	1.3
Dividends	(0.3)
At 31 December 2022	**8.7**

(i) Investments in joint ventures are accounted for using the equity method. Details of the Group's joint ventures are set out in Appendix 1.

(ii) No quoted market prices exist for investments in joint ventures.

(iii) No significant restrictions exist (e.g. resulting from borrowing arrangements, regulatory requirements or contractual arrangements between investors with joint control of, or significant influence over, a joint venture) that impact upon the ability of joint ventures to transfer funds to the Group in the form of cash dividends, or to repay loans or advances made by the Group (2021 none).

(b) Interests in joint ventures

	2022 £m	2021 £m
Aggregate carrying amount of individually immaterial equity accounted interests	**8.7**	7.7
Aggregate profit from continuing operations attributable to the Group	1.3	–
Aggregate total comprehensive income attributable to the Group	**1.3**	–

The Group has no interests in associates.

(c) Commitments

The Group has commitments not recognised at 31 December 2022 relating to its interests in joint ventures of £0.9 million (2021 £1.1 million).

(d) Joint operations

Details of the Group's joint operations are set out in Appendix 1.

During the year the Group invested a total of £77.2 million in Marramwind Limited and Campionwind Limited. The Group shares joint control over both companies through respective shareholder agreements which has the effect of giving the controlling parties rights to the assets of the arrangements and obligations for their liabilities. Therefore the arrangements are considered to be joint operations. The Group therefore includes its share (50%) of the assets, liabilities, income and expenses of each company within its consolidated results and position on a line-by-line basis.

11 FINANCIAL INSTRUMENTS

(a) Carrying amount of financial instruments

The table below sets out the carrying amount and fair value of the Group's financial instruments.

	Classification	Notes	2022 Carrying amount £m	2022 Fair value £m	2021 Carrying amount £m	2021 Fair value £m
Financial assets						
Other investments	FVTPL		**0.2**	**0.2**	0.2	0.2
Derivative financial instruments	Fair value hedging instrument	(i)	**657.2**	**657.2**	1,522.8	1,522.8
Receivables	Amortised cost/FVTPL	(ii), (iii)	**3,228.6**	**3,228.6**	2,525.6	2,525.6
Cash		(iv)	**869.1**	**869.1**	182.9	182.9
Financial liabilities						
Loans and other borrowings	Amortised cost	(v)	**(6,953.6)**	**(6,831.1)**	(5,582.8)	(6,031.7)
Derivative financial instruments	Fair value hedging instrument	(i)	**(1,718.7)**	**(1,718.7)**	(719.6)	(719.6)
Payables	Amortised cost/FVTPL	(ii), (iii)	**(2,037.4)**	**(2,037.4)**	(1,719.0)	(1,719.0)
Current financial liabilities	Amortised cost		**(23.8)**	**(23.8)**	(34.8)	(34.8)

The carrying amount of these financial instruments is calculated as set out in Note 3H. With the exception of Loans and other borrowings, the carrying amount of financial instruments is a reasonable approximation of fair value. The fair value of Loans and other borrowings is calculated as set out in footnote (v) below.

(i) Further detail on Derivative financial instruments is disclosed in Note 11(c).

(ii) Balances outwith the scope of IFRS 7 and IFRS 9 have been excluded, namely Prepayments, Other tax receivables, Payments received on account and Other taxes and social security. This balance also excludes £8.8 million of Receivables in respect of government support schemes that represent prepaid EBSS obligation costs relating to payments made to certain customers in advance of the year end (refer to Note 12(c)).

(iii) Included within Receivables is £1.8 million of contingent consideration. The contingent consideration arose on the sale of 40% of the share capital of East Anglia One Limited ("EA1L") to Bilbao Offshore Holding Limited (refer to Note 11(e) A13). This was a liability of £1.4 million in 2021 and recorded in Payables.

(iv) As a general rule, cash deposited with banks earns interest at rates similar to market rates on daily deposits. Restricted cash is £38.0 million as at 31 December 2022 (2021 £34.0 million) representing cash held relating to the EBSS government support scheme and other regulatory projects (refer to Notes 3R and 3S).

(v) The fair value of listed debt is calculated using the most recently traded price to the year end date. The fair value of all other loans and borrowings is calculated using a discounted cash flow.

(b) Measurement of financial instruments

The Group holds certain financial instruments which are measured in the Statement of financial position at fair value as detailed in Note 11(a) above. The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

In both the current and prior year, all Other investments held by the Group are classified as Level 1 and all Derivative financial instruments held by the Group are classified as Level 2. All contingent consideration receivable or payable held by the Group is classified as Level 2.

Included in Level 2 derivative liabilities of £1,718.7 million (2021 £719.6 million) are inseparable third-party credit enhancements. These have been reflected in the fair value measurement of the liability.

Level 2 commodity derivatives are fair-valued by comparing and discounting the difference between the expected contractual cash flows for the relevant commodities and their quoted prices in an active market.

Level 2 foreign exchange derivatives comprise cross currency swaps and forward foreign exchange contracts, which are both fair-valued using the forward exchange rates quoted in an active market.

Level 2 CPI-linked inflation swaps are fair-valued using a discounted cash flow which uses forward inflation expectations derived from observable markets.

Level 2 contingent consideration referenced in Note 11(e) A13 was fair-valued using a Monte Carlo simulation method, which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change occurred. There were no transfers in either the current or prior year.

11 FINANCIAL INSTRUMENTS *continued*

(c) Analysis of derivative financial instruments – carrying amount

		2022				2021			
		Assets		Liabilities		Assets		Liabilities	
	Note	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m	Current £m	Non-current £m
Hedging derivatives:									
Exchange rate hedges:									
Fair value hedge – Currency swap		**0.7**	**26.9**	**–**	**–**	1.1	32.5	–	–
Cash flow hedge – Foreign exchange rate		**13.4**	**0.1**	**(0.4)**	**–**	0.1	–	(1.3)	(0.1)
Commodity hedges – Cash flow hedge		**588.6**	**243.7**	**(1,593.1)**	**(98.4)**	1,587.1	278.6	(810.8)	(149.8)
Inflation swap – Cash flow hedge		**–**	**–**	**(13.0)**	**(277.1)**	–	–	(2.7)	(141.1)
Non-hedging derivatives:									
Commodity derivatives – Non hedge		**588.6**	**1.3**	**(598.9)**	**(9.5)**	795.7	–	(786.1)	–
Foreign exchange rate – Non hedge		**67.7**	**–**	**(2.1)**	**–**	–	–	–	–
Total gross derivatives		**1,259.0**	**272.0**	**(2,207.5)**	**(385.0)**	2,384.0	311.1	(1,600.9)	(291.0)
Impact of netting	(i)	(830.5)	(43.3)	830.5	43.3	(1,093.8)	(78.5)	1,093.8	78.5
Total net derivatives on Statement of financial position		**428.5**	**228.7**	**(1,377.0)**	**(341.7)**	1,290.2	232.6	(507.1)	(212.5)

(i) Certain derivative financial instruments are presented net in the Statement of financial position. A reconciliation between the gross and net position is provided in Note 11(d).

(d) Offsetting of financial assets and financial liabilities

The Group is eligible to present financial assets and financial liabilities net in the Statement of financial position as described in Note 3H2.3. The following table provides information on the impact of offsetting in the Statement of financial position as well as the financial impact of the netting of certain instruments in the event of default or similar agreements.

	2022					
				Related amounts not offset in Statement of financial position		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities) /assets offset in the Statement of financial position £m	**Net amounts of financial assets/(liabilities) presented in the Statement of financial position £m**	Financial instruments (Note (i)) £m	Cash collateral (held)/posted (Notes (iii) and (iv)) £m	**Net amount £m**
Financial assets						
Receivables	3,578.1	(349.5)	**3,228.6**	(516.6)	(0.2)	**2,711.8**
Derivative financial instruments	1,531.0	(873.8)	**657.2**	–	(50.5)	**606.7**
Financial liabilities						
Payables	(2,386.9)	349.5	**(2,037.4)**	17.7	0.2	**(2,019.5)**
Derivative financial instruments	(2,592.5)	873.8	**(1,718.7)**	–	525.6	**(1,193.1)**
Current financial liabilities	(23.8)	–	**(23.8)**	23.8	–	**–**
Loans and other borrowings	(6,953.6)	–	**(6,953.6)**	–	–	**(6,953.6)**

	2021					
				Related amounts not offset in Statement of financial position		
	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of recognised financial (liabilities) /assets offset in the Statement of financial position £m	Net amounts of financial assets/(liabilities) presented in the Statement of financial position £m	Financial instruments (Notes (i) and (ii)) £m	Cash collateral (held)/posted (Notes (iii) and (iv)) £m	Net amount £m
Financial assets						
Receivables	2,724.9	(199.3)	2,525.6	(227.5)	(15.5)	2,282.6
Derivative financial instruments	2,695.1	(1,172.3)	1,522.8	(79.5)	(287.4)	1,155.9
Financial liabilities						
Payables	(1,918.3)	199.3	(1,719.0)	27.5	269.3	(1,422.2)
Derivative financial instruments	(1,891.9)	1,172.3	(719.6)	79.5	–	(640.1)
Current financial liabilities	(34.8)	–	(34.8)	–	33.6	(1.2)
Loans and other borrowings	(5,582.8)	–	(5,582.8)	200.0	–	(5,382.8)

(i) Certain contracts for both financial assets and financial liabilities, do not currently meet the offsetting criteria within IAS 32. However, in the event of default, these would be required to be offset per the requirements of the contract. The above balances show the effect on the Group if these contracts were also offset. Due to the nature of certain gas contracts, it is not possible to accurately split the effect of offsetting these particular balances across financial instrument categories. For presentational purposes, the impact has been allocated to Derivative financial instruments, Receivables and Payables as deemed appropriate.

(ii) During 2021, the Group agreed an amendment to its existing terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million which did not meet the offsetting criteria within IAS 32 (refer to Note 19(c)(ii)). This facility was not in use at 31 December 2022.

(iii) The Group enters into standard netting agreements with its commodity trading counterparties in order to mitigate the credit risk exposure of the Group. In addition, the Group utilises collateral support agreements with derivative counterparties to manage its credit exposure. These forms of collateral include margining for trading with exchanges, cash collateral used for bilateral and brokering trading, as well as letters of credit. At 31 December 2022, the value of letters of credit held amounted to £11.3 million (2021 £5.2 million) and letters of credit posted amounted to £1,234.6 million (2021 £273.5 million), £870.0 million (2021 £nil) of which related to a letter of credit posted with the Group's commodity derivative clearer.

(iv) At 31 December 2022, the Group held cash collateral of £47.9 million (2021 £305.5 million) in respect of receivables, of which £44.1 million (2021 £300.4 million) can be offset against financial assets. At 31 December 2022, the Group also posted cash collateral of £572.2 million (2021 £45.9 million) in respect of payables, of which £519.0 million (2021 £28.7 million) can be offset against financial liabilities.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management

The Group's principal financial liabilities, other than Derivative financial instruments, comprise Loans and borrowings, Trade and other payables and Current financial liabilities. Their main purpose is to finance the Group's operations. The Group's principal financial assets, other than Derivative financial instruments, comprise Trade and other receivables, and Cash that arises directly from its operations. The Group also holds other investments.

The Group has exposure to the following risks arising from the above financial instruments:

A CREDIT RISK
B COMMODITY MARKET RISK
C TREASURY RISK

The Group's senior management oversee the management of exposure to these risks through the policies detailed below. References to ScottishPower below apply fully to the Group.

The ScottishPower governance structure is supported by group risk policies and other relevant guidelines adopted and approved by the SPL Board together with relevant risk guidelines that are approved by the SPL Board. The risk limits and indicators within the guidelines are approved by the boards of the Group's divisions. ScottishPower's business risk assessment teams and the independent group risk management function support the SPL Board in the execution of due diligence and risk management. In addition, the boards of the Group's divisions are responsible for ensuring that their respective business risks are adequately assessed, monitored, mitigated and managed. The UK Risk Director reports on risks for ScottishPower to the SP ACC and such reports are then presented to the SPL Board. ScottishPower's internal audit function also objectively and independently supervises the effectiveness of the Group's internal control system, which is made up of a set of risk management and control mechanisms and systems. This is achieved through regular and ad hoc audits, the results of which are reported to the SP ACC.

The governance structure described above, ensures that the risk management policies established for each business to identify, assess, monitor, report, manage and mitigate each relevant risk is adequately designed and implemented, and that an effective and efficient system of internal controls is maintained. The divisions adhere to their specific business risk limits and guidelines which were approved by the SPL Board.

The positions on risk and strategy for risk management are contained in the Risk Policy for Iberdrola's businesses in the UK (i.e. ScottishPower). The SPL Board adopts these policies which are implemented through a rigid risk governance structure, whereby responsibilities are vested with groups, committees and individuals on a global, as well as a division level. Generally, the risk management policy and control environment ensures that transactions undertaken, and instruments used, fall into the types of transactions approved by the SPL Board and are properly validated within the appropriate levels of authority. Transactions include instruments such as physically-settled instruments, financially-settled instruments, other contractual obligations, regulatory requirements and other obligations. The types of instruments which can be used are approved for each division. Subject to the limit requirements discussed above, no transactions were executed unless they were an approved instrument. Authorised personnel are permitted to engage only in those activities specified in the business operational policies and procedures.

A clear reporting structure is implemented within ScottishPower. It ensures that the portfolios are monitored on a timely basis and sufficient information is made available to management to enable quick response of the business to the dynamic characteristics of its market environment. Those reports include daily position, mark-to-market, Value at Risk ("VaR") reports as well as periodical fundamentals reports, credit watch, credit exposure, accounting and insurance reports.

A CREDIT RISK

Credit risk is the risk that a counterparty will not meet its contractual obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

The carrying amount of financial assets and contracts represent the maximum credit exposure to the Group.

A1 CREDIT RISK MANAGEMENT

The Group is exposed to both settlement risk (defined as the risk of a counterparty failing to pay for energy and/or services which have been delivered), as well as replacement risk (defined as the risk of incurring additional costs in order to replace a sale or purchase contract following a counterparty default).

Aggregate portfolio risk is monitored and reported by a Credit VaR Monte-Carlo based simulation model to quantify the total credit risk within the existing portfolio.

Further details on the credit risk management strategy adopted for significant types of financial asset are set out below.

- Exposure to credit risk in the supply of electricity and gas arises from the potential that customers default on their invoiced payables. The financial strength and credit-worthiness of business customers is assessed prior to commencing, and for the duration of, their contract of supply. Both domestic and business customers' credit-worthiness is reviewed from a variety of internal and external information sources including customer payment history and credit checks.
- Credit risk in respect of other transactions is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties based upon the risk of counterparty default.
- Credit risk associated with energy-related derivatives is considered to be with counterparties in related energy industries, financial institutions operating in energy markets, or fellow Iberdrola Group companies. At the counterparty level, the Group employs specific eligibility criteria in determining appropriate limits for each prospective counterparty, and supplements this with netting and collateral agreements including margining, guarantees, letters of credit and cash deposits where appropriate.
- Credit risk from balances with banks and financial institutions is managed by the Group's Treasury function in accordance with Iberdrola's cash investment procedure. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty by Corporate Risk Management.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A1 CREDIT RISK MANAGEMENT *continued*

In both the current and prior year, the Group evaluated the concentration of risk with respect to financial assets as low, with no material concentration of credit risk arising from one particular counterparty.

A2 EXPECTED CREDIT LOSS ASSESSMENT

For trade receivables, the Group applies the simplified model for the calculation of ECLs. For all other financial assets measured at amortised cost, the Group applies the general approach for the calculation of ECLs.

Given the varying risk characteristics of the population of trade receivables, this balance has been segmented for disclosure purposes into Energy Retail customer receivables and Other trade receivables.

A3 ENERGY RETAIL TRADE RECEIVABLES

The Group applies the IFRS 9 simplified model to measure ECLs, which uses a lifetime expected loss allowance, for all Energy Retail customer receivables. The Group has adopted the practical expedient whereby it calculates the ECL on Energy Retail's domestic and small and medium-sized enterprise ("SME") customer receivables using a provision matrix. In line with previous years, the provision rates for these customers are based upon the customers' payment plan, historical credit loss experience and, where possible, adjusted for forecast information. To establish levels of ECLs, the recoverability of equivalent balances from the previous three years have been reviewed.

Recognising the current level of energy market disruption, including the ongoing cost of living crisis, and the forecast uncertainty in macro-economic indicators, in line with IFRS 9, a forward-looking loss allowance has been included to ensure that external factors are appropriately mitigated.

However, it should be noted that the UK Government support schemes for domestic customers in place for winter 22/23 should help to mitigate cost of living pressures to a large extent. Under the EBSS, all households receive £400 credited monthly over the period from October 2022 to March 2023. Additionally, the EPG scheme ensures winter 22/23 bills are capped at an Ofgem average bill of £2,500. This was extended, as part of the November 2022 Autumn Statement, from 1 April 2023 for a further year at an increased level of £3,000 for a typical household although the 2023 Budget announcement delayed this increase until 1 July 2023. While this support is welcome, it should be noted that the EPG level is still higher than the Ofgem price cap in place during winter 2021/22, highlighting the underlying pressure on household budgets. Going forward however, bills are expected to be far lower than the forward price peaks seen in 2022, supported by the recent lowering of the Q2 2023 price cap announced on 27 February 2023 which, together with the government support in place, should mitigate against further pressures on customer ability to pay.

In terms of assessing I&C customers, the ECL is based on external credit scoring. The Energy Retail Credit Risk and Corporate Risk teams remain vigilant in tracking any liquidity issues on existing customers to identify any pre-emptive actions required, including putting collateral or letters of credit in place. These receivables are included in the non-aged balances of the table below.

During Q1 2022 the Group made the decision to exit the I&C market. This means no new customers or contracts are being taken on and contracts are being wound down. All existing customers will continue to be serviced as normal until contracts naturally mature between now and 2025. This decision has therefore had no material impact on the 2022 financial results. To mitigate any debt impacts of this decision, security deposits are being requested for customers who have previously paid late. Additionally, maturing and late paying customers are being placed on deemed (higher) rates which may cause a short term increase in debt. The EBRS UK Government support scheme, that provides a discount on energy prices for all non-domestic customers, will also mitigate much of the risk in this segment. The EBRS will be replaced by the EBDS on 1 April 2023 for a period of 12 months, which is expected to deliver a level of more targeted, albeit lower, government support to non-domestic customers.

With the exception of I&C customers, management considers that where customers are final and all debt collection procedures have been exhausted, collectability is not deemed to be reasonably assured and therefore, amounts billed to these customers are written off as uncollectable.

Set out below are the details of the credit risk exposure on Energy Retail's trade receivables:

At 31 December 2022	**Current £m**	**More than 90 days past due £m**	**More than 180 days past due £m**	**More than 12 months past due £m**	**Non-aged balances (Note (a)) £m**	**Unbilled (Note (b)) £m**	**Total (Note (c)) £m**
Weighted average expected loss rate (%)	**12.6%**	**32.1%**	**41.7%**	**55.7%**	**2.1%**	**23.7%**	**23.1%**
Gross carrying amount: Trade receivables	**212.5**	**105.6**	**143.3**	**237.4**	**436.1**	**118.1**	**1,253.0**
Loss allowance	(26.7)	(33.9)	(59.7)	(132.3)	(9.1)	(28.0)	(289.7)
Net carrying amount	**185.8**	**71.7**	**83.6**	**105.1**	**427.0**	**90.1**	**963.3**

At 31 December 2021	Current £m	More than 90 days past due £m	More than 180 days past due £m	More than 12 months past due £m	Non-aged balances (Note (a)) £m	Unbilled (Note (b)) £m	Total £m
Weighted average expected loss rate (%)	13.3%	34.2%	43.1%	48.4%	3.0%	21.5%	25.4%
Gross carrying amount: Trade receivables	165.3	72.9	110.5	209.3	225.1	98.9	882.0
Loss allowance	(22.0)	(24.9)	(47.6)	(101.4)	(6.7)	(21.3)	(223.9)
Net carrying amount	143.3	48.0	62.9	107.9	218.4	77.6	658.1

(a) At 31 December 2022, £0.4 million (2021 £0.5 million) is neither past due nor impaired; no amounts are past due but not impaired in either year.

(b) The gross carrying amount includes unbilled receivables of £118.1 million (2021 £98.9 million) reflecting gross unbilled receivables of £1,263.7 million (2021 £655.6 million) less customer credit balances of £1,124.7 million (2021 £526.5 million) and a £20.9 million (2021 £30.2 million) provision in relation to energy volumes still to reach final settlement. The loss allowance in relation to unbilled receivables is £28.0 million (2021 £21.3 million). Further information on unbilled receivables, including sensitivity, is detailed in Note 3.

(c) Since the prior year, the weighted average expected loss rate for Energy Retail trade receivables has decreased by 2.3%. This is predominantly driven by the I&C customer base where the significant increase in billed revenues from low-risk customers has driven the weighted average loss rate down for this segment, which in turn has outweighed the increase in overall effective provision rates for domestic and SME customers.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A3.1 SENSITIVITY ANALYSIS ON ENERGY RETAIL'S LOSS ALLOWANCE – BILLED RECEIVABLES *continued*

The methodology and assumptions applied in estimating the ECL for the year ended 31 December 2022, and the provision held at that date in respect of the Energy Retail trade receivables, are deemed appropriate, as described on the previous page. Nevertheless, the level of estimation uncertainty in determining the provision has increased in light of the cost of living challenges facing customers (refer to Note 3).

Included within the gross carrying amount of trade receivables is £1,134.9 million (2021 £783.1 million) of billed receivables. The loss allowance in relation to billed receivables is £261.7 million (2021 £202.6 million).

The actual level of billed receivables collected may differ from the estimated levels of recovery, which could impact operating profit positively or negatively. At 31 December 2022, the loss allowance for billed receivables of £261.7 million (2021 £202.6 million) was supported by a projection based on a 36-month cash collection performance. Based on the weighted average expected loss rates in the table above, a 5% increase in the overall expected loss rate would increase the loss allowance by £56.7 million (2021 £39.2 million). A 5% decrease would decrease the loss allowance by £56.7 million (2021 £39.2 million). Given the three year average movement in the loss allowance percentage and recognising the ongoing risk in customers' ability to pay due to the cost of living crisis, a 5% loss allowance sensitivity is considered appropriate.

A4 OTHER TRADE RECEIVABLES

The Group uses the simplified model to measure ECLs for all other trade receivables. The provision rates represent a lifetime ECL and are based on the Iberdrola Group's historical loss experience and default rates.

The table below illustrates the ECL on other trade receivables:

At 31 December 2022	**0-6 months £m**	**Greater than 6 months £m**	**Total £m**
Weighted average expected loss rate (%)	**0.7%**	**54.4%**	**4.8%**
Gross carrying amount	**284.8**	**23.7**	**308.5**
Loss allowance	(2.0)	(12.9)	(14.9)
Net carrying amount	**282.8**	**10.8**	**293.6**

At 31 December 2021	0-6 months £m	Greater than 6 months £m	Total £m
Weighted average expected loss rate (%)	3.1%	25.5%	4.4%
Gross carrying amount	361.8	23.1	384.9
Loss allowance	(11.2)	(5.9)	(17.1)
Net carrying amount	350.6	17.2	367.8

Other trade receivables are written off when there is no reasonable expectation of recovery; indicators of which include, amongst others, the failure of a debtor to engage in a repayment plan with the Group.

Refer to the table reconciling the movement in the opening to the closing loss allowance at Note 11(e)A12.

A5 SECURITY FOR TRADE RECEIVABLES

For some trade receivables, the Group may obtain security in the form of guarantees or letters of credit which can be called upon if the counterparty is in default under the terms of the agreement (refer to Note 11(d)). The Group does not otherwise require collateral in respect of trade and other receivables.

A6 OTHER RECEIVABLES £583.5 MILLION (2021 £271.6 MILLION)

Other receivables primarily compromises collateral posted with commodity derivative counterparties of £529.0 million (2021 £nil) and £43.2 million (2021 £45.9 million) in respect of use of services and to limit exposure to the credit risk of suppliers. During 2021, the Group also agreed an amendment to its terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million (refer to Note 19(c)(ii)). However, this facility was not in use at 31 December 2022. For other receivables, the general ECL model is used. The loss allowance is measured at an amount equal to a twelve-month ECL. However, if the credit risk on that financial instrument has increased significantly since initial recognition, the loss allowance is measured at an amount equal to the lifetime ECL.

The Group allocates each exposure to a credit risk grade (probability of default grade) based on data that is determined to be predictive of the risk of loss (including, but not limited to, external ratings, and available press information about customers) and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of the risk of default. Where external ratings are not available, the Iberdrola Credit Risk department provides the risk ratings. These ratings reflect historical data, current conditions and the Group's view of economic conditions over the expected lives of the receivables. The loss allowance recognised on the Statement of financial position is £0.2 million (2021 £nil).

A7 RECEIVABLES IN RESPECT OF GOVERNMENT SUPPORT SCHEMES £113.2 MILLION (2021 £NIL)

A loss allowance is recognised on receivables from government support scheme (excluding £8.8 million of prepaid EBSS obligation costs relating to payments made to certain customers in advance of the year end) in line with the principles of the general ECL model described in section A6 above. The ECL recognised in the Statement of financial position is less than £0.1 million in 2022. (Refer to section A3 for further information on how these government support schemes impact upon the overall loss allowance recognised on Energy Retail trade receivables).

A8 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES AND JOINT VENTURES £30.7 MILLION (2021 £40.3 MILLION)

The loss allowance recognised on the Statement of financial position in both the current and prior year is less than £0.1 million, as is the movement in the ECL in the year.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

A CREDIT RISK *continued*

A9 RECEIVABLES DUE FROM IBERDROLA GROUP COMPANIES – LOANS AND INTEREST £1,244.3 MILLION (2021 £1,187.8 MILLION)

The Group provides funding in the form of interest-bearing on-demand loans to other group companies. Credit risk from group companies is considered to be low as the Company is part of the Iberdrola Group's centralised treasury function and no group company has a credit rating lower than BBB+ (in line with Standards & Poors external credit ratings). ECL on loans due from other Iberdrola Group companies is calculated using the general model and therefore a twelve-month ECL is applied.

The exposure to credit risk of loans to other group companies (including interest) held at amortised cost by credit rating are set out in the table below:

	31 December 2022			31 December 2021		
Credit Rating	Gross carrying value £m	ECL £m	Amortised Cost Cost	Gross carrying value £m	ECL £m	Amortised Cost Cost
BBB+	**1,244.4**	**(0.1)**	**1,244.3**	1,187.9	(0.1)	1,187.8

A10 CASH £869.1 MILLION (2021 £182.9 MILLION)

At 31 December 2022, the Group held cash of £869.1 million (2021 £182.9 million). The cash is held with banks, financial institutions and Iberdrola Group companies, which are rated BBB- to AAA, based on Standard & Poor's ratings.

Impairment on cash has been measured on a three-month expected loss basis and reflects the short maturities of the exposures. The Group considers that its cash has low credit risk based on the external credit ratings of the counterparties.

The loss allowance recognised on the Statement of financial position is less than £0.1 million in both the current and prior year.

A11 GUARANTEES

The Group's policy is to provide financial guarantees only for subsidiaries' liabilities.

A12 RECONCILIATION OF OPENING TO CLOSING LOSS ALLOWANCE

The closing loss allowances for all financial assets measured at amortised cost at 31 December 2022 reconciles to the opening loss allowances as follows:

	Note	Trade receivables £m	Other receivables £m	Receivables due from Group companies – loans and interest £m	Total £m
Balance at 1 January 2021		206.1	0.2	0.1	206.4
Increase/(decrease) in loss allowance recognised in the Income statement	(a)	102.0	(0.2)	–	101.8
Utilisation of provision		(67.1)	–	–	(67.1)
Balance at 1 January 2022		241.0	–	0.1	241.1
Increase in loss allowance recognised in the Income statement	(a)	81.4	0.2	–	81.6
Utilisation of provision		(16.9)	–	–	(16.9)
Reversal of provision recognised in the Income statement	(a)	(0.9)	–	–	(0.9)
At 31 December 2022		**304.6**	0.2	0.1	304.9

(a) Net credit losses on trade and other receivables per the Consolidated income statement of £86.5 million (2021 £108.0 million) also includes £6.0 million (2021 £6.2 million) of additional net costs primarily in relation to bad debt write offs. The remaining difference of £0.2 million in the current year (2021 £nil) relates to ECLs recorded within Finance costs.

The overall increase from the prior year in the loss allowance of £63.8 million is primarily driven by changes in market conditions resulting in an increase in the gross carrying value of Trade Receivables.

A13 CONTINGENT CONSIDERATION £1.8 MILLION (2021 £(1.4) MILLION)

As part of the share purchase agreement in relation to the sale of a minority stake in EA1L, a contingent consideration was agreed. Payment of this consideration is principally based on savings made on the EA1 project's forecasted spend which was agreed as part of the share purchase agreement. The contingent consideration is fair valued using a Credit VaR Monte Carlo-based simulation model which is a risk and probability based model. The main risks inherent in the model are the potential adverse impacts from delay and weather resulting in overspend.

The contracts supporting the construction of the EA1 wind farm are still ongoing and not expected to conclude until 2023. As a result there continues to be updates to the value of the final contingent consideration. As at 31 December 2022 included within Receivables is £1.8 million of contingent consideration. This was a liability of £1.4 million in 2021 and recorded in Payables.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

B COMMODITY MARKET RISK

Commodity market risk is principally comprised of energy market risk.

B1 ENERGY MARKET RISK

Throughout 2022 and the prior year, ScottishPower was exposed to energy market risk associated with fluctuations in the market price of electricity and gas, compounded by volumetric risk caused by unplanned changes in the output of the portfolio of generation assets.

B2 ENERGY MARKET RISK MANAGEMENT

The risk management policies are implemented at the business level with the oversight of the divisions' boards, management teams and the independent risk management function. The Group uses a number of risk measurement procedures and techniques to ensure that risk is kept within pre-approved limits. The key measures are stop-loss limits and volume exposure by tenor limits. All valuation models are reviewed and approved by the independent group risk management function on an ongoing basis, including changes to assumptions and model inputs. Changes that could have had significant impact on the Accounts required additional review and approval by the appropriate boards.

During both the current and prior year, the risk management function employed additional techniques such as VaR, to assist in measuring risk within the volume exposure by tenor limits. VaR is a key measure of the potential financial loss on a price exposure position over a defined period to a given level of confidence. VaR computations for the Group's energy commodity portfolios were based on a historical simulation technique, which utilised historical energy market forward price curve changes to estimate the potential unfavourable impact of price changes in the portfolio positions. The quantification of market risk using VaR provided a consistent measure of risk and sensitivity across the Group's continually changing portfolio, however, VaR was not necessarily indicative of actual results that may occur.

Future changes in markets inconsistent with historical data or assumptions used could cause variation in actual results to exceed predicted ranges. The Group's VaR computations for its energy commodity portfolio utilised several key assumptions, including a 99% confidence level for the resultant price changes and a holding period of five business days. VaR, while sensitive to changes in portfolio volume, does not account for commodity volume risk. Commodity volume risk is defined as the possibility that a change in the supply of, or demand for, the commodity will create an unexpected imbalance and change the requirements for the commodity.

The application of the VaR methodology has evolved to include the total forecasted volumes for the renewable generation assets and retail contracts to provide a more accurate measure of the risk associated with the volume exposure by tenor limits. The Group's VaR measures are shown in the table below.

	2022 £m	2021 £m
VaR	**368.1**	88.4
Average VaR over prior year	**214.0**	41.9
Maximum VaR over prior year	**489.9**	110.9
Minimum VaR over prior year	**67.1**	26.4

B3 HEDGING OF ENERGY MARKET RISK

Hedging activities associated with energy market risk are undertaken within the energy management function. The strategy of the business is to mitigate the economic risks associated with electricity generation and supply of electricity and natural gas to end users in both the wholesale and retail markets. From a reporting perspective the objective is to report earnings results that are consistent with its operational strategies and hence recognise the earnings effect of financial and non-financial derivative transactions executed to hedge economic business risks in the same period in which the hedged operational activity impacts earnings. The aim is to minimise earnings volatility, which would otherwise be present as a result of fair valuing all derivative contracts under IFRS 9. To achieve this objective, where effectiveness documentation and reporting requirements are met, cash flow hedge accounting is applied by designation of a series of derivative trades, and deferring in equity the fair value changes of open derivative positions until the period in which the forecast transactions occur.

Cash flow hedging strategies are developed for both the electricity and natural gas portfolios to hedge the variability in cash flows associated with changes in the market price of each commodity. Forward (fixed price/fixed volume) contracts are designated as hedging instruments for the majority of electricity and gas hedges. Load-following swaps are used to a lesser extent to hedge risks associated with electricity generation.

Counterparty risk is discussed in Note 11(e)A1.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

B COMMODITY MARKET RISK *continued*

B4 COMMODITY CASH FLOW HEDGES

Certain commodity derivative instruments do not qualify for hedge accounting including derivatives taken out with the ultimate parent company, Iberdrola, S.A.. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the Income statement and are included in Gross margin, Finance Income or Finance Cost.

For an analysis of the split of the carrying amount of hedging and non-hedging commodity derivatives refer to Note 11(c).

The amounts relating to commodity derivatives designated as hedging instruments during the year are detailed in the table below:

	Notes	**2022 Hedging derivatives £m**	2021 Hedging derivatives £m
Notional amount		**4,477.7**	2,759.0
Carrying amount – asset	(a)	**832.3**	1,865.7
Carrying amount – liability	(a)	**(1,691.5)**	(960.6)
Changes in the value of the hedging instrument recognised in other comprehensive income		**(1,770.1)**	723.5
Hedge ineffectiveness in the Income statement		**–**	(5.8)
Amount reclassified from Cash flow hedge reserve to Income statement	(b)	**(1,060.5)**	(1,159.7)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the Statement of financial position.

(b) The amount reclassified from the Cash flow hedge reserve to the Income statement is recorded within Gross margin.

The amounts at the reporting date relating to commodity items designated as hedged items were as follows:

	Change in fair value used for calculating hedge ineffectiveness		**Cash flow hedge reserve balance**	
Line item in the Accounts in which the hedged item is/will be included	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Gross margin	**1,770.1**	(717.7)	**(693.2)**	1,121.7

The assessment of effectiveness of all hedging relationships currently in place is carried out on a monthly basis as part of the financial reporting cycle. Prospective assessment is carried out at inception of the hedge and on an ongoing basis to verify that the hedge remains effective.

The Group determines that the economic relationship between the hedging instrument (the commodity derivative) and the hedged item (the commodity purchases or sale) will virtually always achieve 100% effectiveness where the key terms of the hedged item match the key terms of the hedging instrument. Where this is not the case, prospective assessment is carried out at inception of the hedge, and on an ongoing basis, to verify that the hedge remains effective by comparing the movements in the fair value of the cash flows of the expected highly probable transaction with movements in the fair value of the the hedging instrument.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. In such circumstances, the trade and the hedge would be eliminated from the accounts. Ineffectiveness will also arise if the Group receives notification that the business have been unable to obtain a reliable price forecast from market sources or if there is a change to the Group Risk Management Strategy. Additionally, ineffectiveness will arise from any differences in the key terms of the hedged item and the hedging instrument.

B4.1 SENSITIVITY ANALYSIS ON COMMODITY PRICES

The sensitivity on the consolidated results to changes in the market prices of the main commodities are set out in the table below. Sensitivities have changed from 2021 due to volatility in the energy markets throughout 2022.

	2022			2021		
Commodity	**Variation in price**	**Impact on Profit before tax £m**	**Impact on Equity before tax £m**	Variation in price	Impact on Profit before tax £m	Impact on Equity before tax £m
Gas	**+100%**	**–**	**837.9**	+75%	–	801.9
	-50%	**–**	**(419.0)**	-75%	–	(801.9)
Electricity	**+45%**	**(5.1)**	**475.2**	+25%	(0.2)	414.0
	-45%	**5.1**	**(475.2)**	-25%	0.2	(414.0)

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK

Treasury risk is comprised of liquidity risk, market risk and inflation risk. The Group's cash management and short-term financing activity is integrated with Iberdrola's. The Group's financing structure is determined by its position in the wider Iberdrola Group. The Group produces short-term rolling cash flow requirements and, if necessary, any required funding is obtained via the Group credit facilities already in place. The Group holds investment grade ratings with Moody's Investor Services (Baa1), Standard & Poor's rating services (BBB+) and Fitch Ratings (BBB+).

C1 TREASURY LIQUIDITY RISK MANAGEMENT

The Group's liquidity position and short-term financing activities are integrated and aligned with Iberdrola's. Liquidity risk, the risk that the Group will have insufficient funds to meet its liabilities, is managed by Iberdrola Group Treasury, who are responsible for arranging banking facilities on behalf of ScottishPower. Iberdrola Financiación S.A. (a fellow Iberdrola Group company) and SPL are the principal internal counterparties for the loan balances due from the Group. SPL is the principal counterparty for the loan balances due to the Group.

The tables below summarise the maturity profile of the Group's financial liabilities at 31 December based on contractual undiscounted payments.

C1.1 FINANCIAL LIABILITIES (EXCLUDING COMMODITY DERIVATIVES)

	2022						
Cash outflows*	**2023 £m**	**2024 £m**	**2024 £m**	**2026 £m**	**2027 £m**	**2028 and thereafter £m**	**Total £m**
Derivative financial instruments (excluding commodity derivatives)	155.8	20.2	19.7	18.9	18.9	200.7	**434.2**
Loans and other borrowings	3,083.7	657.9	401.9	547.8	1,617.3	2,185.1	**8,493.7**
Payables	2,027.0	0.4	5.7	4.3	–	–	**2,037.4**
Current financial liabilities	23.8	–	–	–	–	–	**23.8**
	5,290.3	**678.5**	**427.3**	**571.0**	**1,636.2**	**2,385.8**	**10,989.1**

	2021						
Cash outflows*	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Derivative financial instruments (excluding commodity derivatives)	48.6	15.7	7.9	8.2	8.9	111.1	200.4
Loans and other borrowings	1,135.9	592.7	487.9	309.5	464.9	3,559.2	6,550.1
Payables	1,710.2	–	3.7	2.9	2.2	–	1,719.0
Current financial liabilities	34.8	–	–	–	–	–	34.8
	2,929.5	608.4	499.5	320.6	476.0	3,670.3	8,504.3

* Maturity analysis of lease liabilities is presented at Note 8A(c).

The interest payments on variable interest rate loans and bond issues in the table above reflect current interest rates at the reporting date; these amounts may change as market interest rates change.

The future cash flows on derivative instruments (including commodity derivatives below) may differ from the amounts in the table above as interest and exchange rates or the relevant conditions underlying the calculation change. Except for these financial liabilities, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

C1.2 COMMODITY DERIVATIVES

The Group believes the liquidity risk associated with commodity derivatives needs to be considered in conjunction with the profile of payments in relation to all derivative contracts rather than only those in a liability position.

	2022						
	2023 £m	**2024 £m**	**2025 £m**	**2026 £m**	**2027 £m**	**2028 and thereafter £m**	**Total £m**
Net cash outflows/(inflows)	**2,824.2**	**(73.2)**	**30.8**	**(6.3)**	**(8.7)**	**(12.7)**	**2,754.1**

	2021						
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Net cash outflows/(inflows)	1,640.1	179.8	70.1	(4.1)	(8.7)	(21.4)	1,855.8

Details of the Group's contractual commitments are given in Note 31.

C2 TREASURY MARKET RISK MANAGEMENT

Market risk is the risk of loss resulting from changes in market rates (interest rates and foreign currency). Within the Treasury function, the Group utilises a number of financial instruments to manage interest rate and foreign currency exposures. The management of interest rate risk is unaffected by IBOR Reform. As of 1 January 2022, all debt and hedging instruments which referenced London Inter-Bank Offer Rate ("LIBOR") were amended to reference Sterling Overnight Index Average ("SONIA") plus a Credit Adjustment Spread ("CAS").

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.1 INTEREST RATE RISK

The Group's financial assets and liabilities are exposed to fluctuations in interest rates which impact upon cash flows and fair value measurements. Interest rates rose throughout 2022 as a consequence of rising inflation. Based on market analysis, interest rates are not expected to rise so significantly in 2023. Changing interest rates and their impact upon the Group are constantly reviewed as discussed in the hedging strategy below.

(i) Hedging of interest rate risk

In order to adequately manage and limit interest rate risk, the Iberdrola Group annually determines the desired structure of the debt between fixed and floating interest rates, taking into account the indexing of income either interest rate or price index. The ScottishPower Treasury function then take actions over the course of the year to work towards these desired Iberdrola Group ratios. Actions may include obtaining new sources of financing (at a fixed, floating or indexed rate) and/or utilising interest rate derivatives.

The Group may use interest rate derivatives, whether to set the interest rate (or limit its variability) for variable rate debt or to change debt from fixed rate to floating rate. Derivatives may also be used to establish the cost of future debt issues, provided they are highly probable and aligned to the strategic plan.

(ii) Interest rate analysis of debt

The table below shows the debt structure of the Group after taking hedging derivatives into account.

	2022 £m	2021 £m
Fixed rate	**2,344.8**	2,543.8
Variable rate	**4,533.3**	2,988.7
	6,878.1	5,532.5

The Group's borrowings are held at amortised cost. The reference interest rates for the floating rate borrowings in 2022 are SONIA plus CAS, Bank of England Base Rate ("Base") and RPI. With cessation of LIBOR rates at end of 2021, all existing LIBOR variable rate loans were switched to an alternative reference rate (SONIA plus CAS) during 2022.

The variable rate debt consists of a £76.1 million (2021 £81.8 million) Japanese Yen ("JPY") loan, £345.9 million (2021 £314.4 million) inflation-linked bonds, £1,820.0 million SONIA plus CAS term debt (2021 £1,820.0 million LIBOR debt), £nil (2021 £9.1 million) Euro Bank Offered Rate ("EURIBOR") debt and a £2,291.3 million (2021 £763.4 million) loan linked to Base.

(iii) Sensitivity analysis on interest rate changes

The table below illustrates the impact on the annual interest rate charge considering various rate changes. The changes in rate have increased from those used in 2021 reflecting current market conditions and the continued growth in the Base rate throughout 2022. The analysis assumes all other factors remain constant.

Debt category		Interest rate	Change in rate 2022	Change in rate 2021	Impact on interest charge in 2022 £m	Impact on interest charge in 2021 £m
Loans payable	JPY debt	(a)	+0.5%	+0.25%	**0.3**	0.1
			+1.0%	+0.50%	**0.5**	0.3
			-0.5%	-0.25%	**(0.3)**	(0.1)
			-1.0%	-0.50%	**(0.5)**	(0.3)
Loans payable	Inflation-linked bonds	RPI	+0.5%	+0.25%	**1.7**	0.8
			+1.0%	+0.50%	**3.5**	1.5
			-0.5%	-0.25%	**(1.7)**	(0.8)
			-1.0%	-0.50%	**(3.5)**	(1.5)
Loans payable	SONIA plus CAS debt	SONIA plus CAS	+0.5%	+0.25%	**9.1**	4.7
	(excluding JPY debt)	(2021 LIBOR/EURIBOR)	+1.0%	+0.50%	**18.2**	9.3
			-0.5%	-0.25%	**(9.1)**	(4.7)
			-1.0%	-0.50%	**(18.2)**	(9.3)
Loans payable	Short-term variable rate debt	Base	+0.5%	+0.25%	**11.5**	1.9
			+1.0%	+0.50%	**22.9**	3.8
			-0.5%	-0.25%	**(11.5)**	(1.9)
			-1.0%	-0.50%	**(22.9)**	(3.8)
Loans receivable	Short-term variable rate debt	Base	+0.5%	+0.25%	**(6.1)**	(2.9)
			+1.0%	+0.50%	**(12.2)**	(5.9)
			-0.5%	-0.25%	**6.1**	2.9
			-1.0%	-0.50%	**12.2**	5.9

(a) The interest on the JPY debt is fixed, however this is changed to variable by a cross currency swap. It was agreed to adopt the ISDA Fallbacks Protocol ("the Protocol") regarding LIBOR cessation from end of 2021. In 2022, the interest is based on SONIA plus CAS.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which purchases and borrowings are denominated. The currencies in which these transactions are primarily denominated are Euros and Norwegian Krone. The SPL Board policy stipulates that there should be no significant exposure to foreign currency balances and therefore the ScottishPower Treasury function will hedge all foreign currency payments and contracts which have a (cumulative) value greater than a Sterling equivalent of £0.25 million.

(i) Hedging of foreign currency risk

The Group uses a combination of foreign currency swaps and forwards to hedge its exposure to foreign currency risk. Under the Group's policy, the critical terms of the forwards and swaps must align with the hedged items.

For treasury related items (hedging the value of currency denominated intercompany loans) the Group only designates the spot component of foreign currency forwards in hedge relationships. The spot component is determined with reference to relevant spot market exchange rates. The differential between the contracted forward rate and the spot market exchange rate is defined as the forward points. The changes in the forward points of the foreign currency forwards that relate to hedging currency denominated loans are deferred in the Cost of hedging reserve.

The Group also enters into foreign currency forwards in relation to asset purchases, and other small items of general expenditure. For such items, the Group designates the entire value of the foreign currency forward in the hedge relationship.

Some foreign currency forwards do not satisfy the requirements for hedge accounting (economic hedges) under IFRS 9. These foreign currency forwards are subject to the same risk management policies as all other derivative contracts. However, they are accounted for as 'held for trading' with gains and losses recognised in the Income statement.

The table below illustrates the timing of the notional amount of the hedging instrument and the average forward price of the hedging instrument.

At 31 December 2022	Note	1 year	2 years	3 years	4 years	5 years+	Total
USD		18.9	0.1	–	–	51.4	**70.4**
EUR		315.0	2.5	0.9	–	–	**318.4**
DKK	(a)	2.2	–	–	–	–	**2.2**
NOK	(a)	124.7	–	–	–	–	**124.7**
		460.8	2.6	0.9	–	51.4	**515.7**

(a) DKK - Danish Krone; NOK - Norwegian Krone
(b) The information presented in the table above includes the gross notional value of the hedging derivative financial instruments arranged in absolute terms (without offsetting purchase and sale positions).

	Average forward price of the hedging instrument				
At 31 December 2022	1 year	2 years	3 years	4 years	5 years
USD (GBP:USD)	1.24	1.37	–	–	1.59
EUR (GBP:EUR)	1.16	1.12	1.11	–	–
DKK (GBP:DKK)	8.60	–	–	–	–
NOK(GBP:NOK)	11.93	–	–	–	–

Further details on the Group's foreign currency cash flow hedges and fair value hedges are set out below and on the following page.

(ii) Foreign exchange rate cash flow hedges

Hedging of the purchase of assets and services: The Group is subject to cash flow risk resulting from the purchase of various assets and services which are denominated in foreign currencies. The risk being hedged relates to the fluctuation in the functional currency terms of value of these foreign currency denominated purchases. The Group enters into forward foreign exchange rate contracts to hedge those risks.

Hedging the value of foreign currency denominated intercompany loans: Where the Group has provided funding to, or received funding from, other Iberdrola companies denominated in currencies other than Sterling, the value of the Group's assets or liabilities in relation to this funding is subject to foreign exchange risk. As a result, the Group enters into foreign exchange rate contracts and has designated them within a cash flow hedging relationship where they meet required hedging criteria.

For an analysis of the split of the carrying amount of forward foreign exchange contracts refer to Note 11(c).

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK *continued*

(ii) Foreign exchange rate cash flow hedges *continued*

The amounts relating to foreign exchange rate derivatives designated as cash flow hedges during the year are detailed in the table below.

	Notes	2022 Hedging derivatives £m	2021 Hedging derivatives £m
Notional amount		**464.3**	64.7
Carrying amount – asset	(a)	**13.5**	0.1
Carrying amount – liability	(a)	**(0.4)**	(1.4)
Changes in the value of the hedging instrument recognised in other comprehensive income	(b)	**14.4**	(2.3)
De-designated cash flow hedges recognised in the Income statement	(c)	**0.1**	–
Amount reclassified from Cash flow hedge reserve to Income statement	(d)	**–**	0.3
Amount reclassified from Cash flow hedge reserve to Statement of financial position	(e)	**(1.2)**	(0.1)

(a) The carrying amount of derivative assets and liabilities are recorded within Derivative financial instruments on the Statement of financial position.

(b) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness for hedging of asset purchases and items of general expenditure.

(c) De-designated cash flow hedges of £0.1 million (2021 £nil) are recognised in the Income statement and included in Finance costs.

(d) In the prior year, the amount reclassified from the Cash flow hedge reserve to the Income statement recorded within External services was £0.1 million. In the prior year £0.2 million was also released from the Cost of hedging reserve.

(e) The amount reclassified from the Cash flow hedge to the Statement of financial position was £(1.2) million (2021 £(0.1) million). Refer to Note 14(e). Included within Property, plant and equipment in the course of construction was £(1.5) million (2021 £(0.1) million) and included within Inventories was £0.3 million (2021 £nil).

The amounts at the reporting date relating to foreign exchange items designated as hedged items were as follows:

	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
Line item in the Accounts in which the hedged item is/will be included	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Property, plant and equipment in the course of construction	**(0.2)**	0.2	**7.3**	8.1
Inventories	**(12.4)**	–	**12.8**	–
External services	**(1.1)**	1.1	**2.3**	0.9
Loans and other borrowings	**(0.7)**	1.0	**–**	–
	(14.4)	2.3	**22.4**	9.0
Less non-controlling interest share of cash flow hedge reserve	**–**	–	**(1.1)**	(1.2)
Total	**(14.4)**	2.3	**21.3**	7.8

The Group determines that the economic relationship between the hedging instrument (the foreign exchange rate forward contract) and the hedged item (the asset purchase) will mostly achieve 100% effectiveness. This is because the Group compares movements in the fair value of the expected highly probable forecast foreign currency cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast future foreign currency cash flows are largely based upon contractual obligations.

Ineffectiveness will arise if the trade has been cancelled, in which case there would be no future transaction. Ineffectiveness will also arise if the Group receives notification that the business has been unable to obtain a reliable price forecast from market sources or if there is a change in the Group's risk management strategy. Finally, ineffectiveness will arise from any differences in the key terms of the hedged item and the hedging instrument.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C TREASURY RISK *continued*

C2 TREASURY MARKET RISK MANAGEMENT *continued*

C2.2 FOREIGN CURRENCY RISK *continued*

(iii) Fair value hedges

Hedging the value of cross currency debt: the Group has issued debt instruments denominated in Japanese Yen. The value of the Group's liability with respect to those instruments is subject to foreign exchange risk and interest rate risk. As a result, the Group has entered into cross-currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion Japanese Yen loan is £76.1 million (2021 £81.8 million).

	Notes	At 31 December 2022	At 31 December 2021
Notional amount (£m)		**51.4**	51.4
Carrying amount – asset (£m)	(a)	**27.6**	33.6
Change in fair value of the hedging instrument used in calculating hedge ineffectiveness (£m)		**(6.0)**	(9.8)
Change in fair value of hedged item used to calculate ineffectiveness (£m)	(b)	**6.0**	9.8
Hedge ratio		**1:1**	1:1
Average hedge rate for the year (£: JPY)		**1:194.55**	1:194.55

(a) The carrying amount of the fair value currency swap is included within Derivative financial instruments on the Statement of financial position.

(b) In both the current and prior year the change in value of hedged items used to calculate hedge ineffectiveness is included within Loans and other borrowings.

(c) The Group and counterparty signed the International Swaps and Derivatives Association's ("ISDA") IBOR Fallbacks Protocol and accordingly the terms of the cross-currency swap were revised to reference the SONIA benchmark from 1 January 2022. The associated hedge documentation was updated as required by amendments to IFRS 9 under Phase 2 of IBOR reform. The impact of IBOR reform on the hedged item and hedging instrument has not resulted in ineffectiveness.

(iv) Hedge assessment on foreign currency derivatives

Hedge assessment on foreign currency derivatives is done prospectively to verify that the forecast transactions are still highly probable of occurring (for cash flow hedges) as well as retrospectively, to assess the effectiveness in the period under review. Prospective assessment is performed using sensitivity analysis and critical terms matching.

(v) Sensitivity analysis on foreign currency derivatives and cash flows

Sensitivity analysis is completed below for the Euro population of foreign exchange rate derivatives in 2022. This reflects reasonably probable fluctuations to the spot rate used in the derivative valuation model. Other currencies have not been included as the impact on the financial statements of reasonably possible exchange fluctuations is not significant.

Percentage change in spot rate used in derivative valuation model	Note	Net impact on Finance income and cost £m	Net impact on Cash flow hedge reserve before tax £m
Net expense generated by an appreciation in the GBP: EUR spot rate of 7%	(a)	137.8	21.3
Net income generated by a depreciation in the GBP: EUR spot rate of 1%	(a)	(20.8)	(3.2)

(a) The percentages used in the sensitivity analysis above are based on the deviation between the year end GBP: EUR spot rate and the highest and lowest GBP: EUR spot rates observed in the market in 2022.

No sensitivity analysis has been presented in relation to the 2021 derivative valuations because almost all foreign currency purchases and loans are hedged. Therefore, there was immaterial financial exposure. Any movement in the value of the hedged item was compensated for by movement in the value of the hedging instrument.

Foreign currency cash balances held are so small any movement in foreign exchange rates would result in an insignificant movement in the Income statement in both the current and prior year (less than £0.1m before tax).

C3 INFLATION RATE RISK

The Group is exposed to inflation risk through its CfDs. Income earned through CfDs varies with inflation and volatility inherent in inflation will therefore impact the Group's income.

(i) Hedging of inflation rate risk

To reduce exposure to this risk, the Group utilises CPI inflation swaps. These instruments result in the Group receiving a fixed CPI interest element, and paying a variable CPI interest element based on outturned CPI. The aim is to reduce earnings volatility, as the cash flows from the CPI swaps will offset volatility in the income from CfDs due to CPI inflation. The Group entered into its first CPI swap during 2021 and additional swaps were taken out during 2022. Refer to Note 3 for further details on the significant judgment regarding the CPI inflation swaps entered into in respect of the EA3 project.

11 FINANCIAL INSTRUMENTS *continued*

(e) Financial risk management *continued*

C3 INFLATION RATE RISK *continued*

(i) Hedging of inflation rate risk *continued*

The swaps are designated as cash flow hedges under IFRS 9 and hedge separately identifiable and reliably measurable contract terms of CfDs.

	Notes	2022 Hedging derivatives £m	2021 Hedging derivatives £m
Notional amount		**281.7**	180.0
Carrying amount – liability		**(290.1)**	(143.8)
Change in the fair value of the hedging instrument recognised in other comprehensive income	(a)	**(146.3)**	(143.8)
Amount reclassified from Cash flow hedge reserve to Income statement	(b)	**3.3**	–

(a) This is consistent with the change in the fair value of the hedging instrument used to calculate ineffectiveness.
(b) Amounts reclassified to Income statement are included within Gross margin.

	Change in fair value used for calculating hedge ineffectiveness		Cash flow hedge reserve balance	
Line item in the Accounts in which the hedged item will be included	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Gross margin	**146.3**	143.8	**(289.8)**	(143.8)

(ii) Hedge effectiveness

The Group determines that the economic relationship between the hedging instrument and the hedged item will virtually always achieve 100% effectiveness. This is because the Group compares movements in the fair value of the expected highly probable cash flows, with movements in the fair value of the expected changes in cash flows from the hedging instrument. Forecast cash flows are based upon contractual obligations.

12 TRADE AND OTHER RECEIVABLES

	Notes	2022 £m	2021 £m
Current receivables:			
Receivables due from Iberdrola Group companies – trade		**27.2**	36.0
Receivables due from Iberdrola Group companies – loans	(a)	**1,224.8**	1,177.5
Receivables due from Iberdrola Group companies – interest		**19.5**	10.3
Receivables due from joint ventures – trade		**0.7**	0.9
Receivables due from joint ventures – other		**1.6**	2.0
Trade receivables (including accrued income)	(b)	**1,256.9**	1,023.0
Prepayments		**39.8**	28.9
Other tax receivables		**20.0**	25.2
Receivables in respect of government support schemes	(c)	**122.0**	–
Other receivables	(d)	**574.2**	254.6
	(e)	**3,286.7**	2,558.4
Non-current receivables:			
Receivables due from joint ventures – trade		**1.2**	1.4
Trade receivables (including accrued income)	(b)	**–**	2.9
Prepayments		**5.9**	8.4
Other receivables		**9.3**	17.0
	(e)	**16.4**	29.7

(a) Current loans due form Iberdrola Group companies are receivable on demand with interest linked to Base.
(b) Certain trade receivables and payables are presented net on the Statement of financial position when the offsetting criteria under IAS 32 are met (refer to Note 3H2.3). A reconciliation between the gross and net position is provided in Note 11(d).
(c) The Group has receivables due from the UK Government of £52.5 million and £60.7 million relating to the EPG and EBRS schemes respectively. This balance also includes £8.8 million of prepaid EBSS obligation costs relating to payments made to certain customers in advance of the year end.
(d) Current other receivables primarily compromises of collateral relating to collateral posted with commodity derivative counterparties £529.0 million (2021 £nil) and £43.2 million (2021 £45.9 million) in respect of use of services. During 2021, the Group also agreed an amendment to its terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million (refer to Note 19(c)(ii)). However, this facility was not in use at 31 December 2022.
(e) Trade and other receivables includes £1,119.6 million (2021 £779.8 million) of IFRS15 receivables (refer to Note 22(b)).
(f) Information about the Group's exposure to credit and market risks, and net credit losses for trade and other receivables, are included in Note 11(e).

13 INVENTORIES

	Notes	2022 £m	2021 £m
Fuel stocks		**31.4**	13.1
ROCs		**256.8**	190.2
Other inventories	(a)	**354.0**	751.5
	(b)	**642.2**	954.8

(a) Other inventories primarily comprises transmission assets (refer to Note 3I for further details).
(b) Inventories with a value of £1,123 million (2021 £435.6 million) were recognised as an expense during the year. £662.3 million of the 2022 value relates to the external sale of the EA1 offshore transmission asset.

14 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings (Note (d)) £m	Total £m
At 1 January 2021	3,551.7	398.2	157.7	420.5	2,214.1	6,742.2
Profit for the year attributable to the equity holder of the Company	–	–	–	–	54.5	54.5
Changes in the value of cash flow hedges	–	–	792.6	–	–	792.6
Movements in retirement benefits	–	–	–	–	586.0	586.0
Tax on items relating to cash flow hedges	–	–	(157.0)	–	–	(157.0)
Tax on items relating to movements in retirement benefits	–	–	–	–	(126.4)	(126.4)
At 31 December 2021	3,551.7	398.2	793.3	420.5	2,728.2	7,891.9
Adjustments due to impact of IAS 37 amendment (refer to Note 2B(a))	–	–	–	–	(48.6)	(48.6)
Adjusted balance at 1 January 2022	3,551.7	398.2	793.3	420.5	2,679.6	7,843.3
Profit for the year attributable to the equity holder of the Company	–	–	–	–	487.0	487.0
Changes in the value of cash flow hedges	–	–	(1,947.2)	–	–	(1,947.2)
Movements in retirement benefits	–	–	–	–	(49.5)	(49.5)
Tax on items relating to cash flow hedges	–	–	404.1	–	–	404.1
Tax on items relating to movements in retirement benefits	–	–	–	–	9.2	9.2
Dividends	–	–	–	–	(715.0)	(715.0)
At 31 December 2022	**3,551.7**	**398.2**	**(749.8)**	**420.5**	**2,411.3**	**6,031.9**

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(b) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying amount of a non-financial asset.

(c) Other reserves at 31 December 2022 comprises a merger reserve of £412.2 million (2021 £412.2 million) and a capital redemption reserve of £8.3 million (2021 £8.3 million). The merger reserve comprises the difference arising on the accounting for the Company's acquisition of subsidiary entities following a previous Group restructure. The capital redemption reserve represents the cumulative nominal value of shares repurchased and cancelled by the Company.

(d) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

(e) The changes in the hedge reserve arising from valuation adjustments to hedging derivatives is set out below:

Analysis of cash flow hedge reserve	Cost of hedging reserve £m	Commodity hedges £m	Foreign exchange rate hedges £m	Inflation Hedge £m	Gross value of hedges £m	Tax effect £m	Total (Note (i)) £m
At 1 January 2021	2.6	183.3	8.6	–	194.5	(36.8)	157.7
Effective cash flow hedges recognised	–	2,098.1	(2.0)	(143.8)	1,952.3	(370.9)	1,581.4
Removed from equity and recognised in Income statement	–	(1,159.7)	0.1	–	(1,159.6)	220.3	(939.3)
Removed from equity and recognised in carrying amount of hedged items	–	–	(0.1)	–	(0.1)	–	(0.1)
Cost of hedging reserve – change in fair value	(1.4)	–	–	–	(1.4)	0.2	(1.2)
Cost of hedging reserve – reclassified to Income Statement	0.2	–	–	–	0.2	–	0.2
Non-controlling interests share of cash flow hedges	–	–	1.2	–	1.2	(0.2)	1.0
Change in tax rate	–	–	–	–	–	(6.4)	(6.4)
At 1 January 2022	1.4	1,121.7	7.8	(143.8)	987.1	(193.8)	793.3
Effective cash flow hedges recognised	–	(754.4)	14.5	(149.3)	(889.2)	168.9	(720.3)
Removed from equity and recognised in Income statement	–	(1,060.5)	–	3.3	(1,057.2)	200.9	(856.3)
Removed from equity and recognised in carrying amount of hedged items	–	–	(1.2)	–	(1.2)	0.2	(1.0)
Cost of hedging reserve – change in fair value	0.2	–	–	–	0.2	–	0.2
De-designated cash flow hedges	–	–	0.1	–	0.1	–	0.1
Non-controlling interests share of cash flow hedges	–	–	0.1	–	0.1	–	0.1
Change in tax rate	–	–	–	–	–	34.1	34.1
At 31 December 2022	**1.6**	**(693.2)**	**21.3**	**(289.8)**	**(960.1)**	**210.3**	**(749.8)**

14 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY *continued*

(i) The maturity analysis of amounts included in the hedge reserve is as follows:

	2022 £m	2021 £m
Less than 1 year	**(642.2)**	833.2
1-2 years	**110.7**	76.7
2-3 years	**(15.0)**	11.4
3-4 years	**(24.5)**	(8.2)
5 or more years	**(178.8)**	(119.8)
	(749.8)	793.3

(f) A breakdown of tax recognised directly in equity is set out below:

	Notes	2022 £m	2021 £m
Relating to current tax:			
Retirement benefits movements	(i)	(18.5)	(31.3)
Cash flow hedge movements		(27.7)	(27.3)
Onerous provisions	(ii)	(11.4)	–
Trading losses		(18.2)	18.2
		(75.8)	(40.4)

	Notes	2022 £m	2021 £m
Relating to deferred tax:			
Retirement benefits movements	(i)	9.3	157.7
Cash flow hedge movements		(376.4)	184.1
Trading losses		18.2	(18.2)
		(348.9)	323.6

(i) The tax on Retirement benefits movements is comprised of a Corporation Tax credit of £18.5 million arising due to the excess of pension contributions over costs and a deferred tax charge of £9.3 million relating to actuarial gains.

(ii) This represents current tax recognised directly in Retained earnings as a consequence of the amendment to IAS 37 (refer to Note 2B(a) for further details). Accordingly this is not included in the Statement of comprehensive income.

15 SHARE CAPITAL

	2022 £m	2021 £m
Allotted, called up and fully paid shares:		
7,103,427,542 ordinary shares of 50p each (2021 7,103,427,542)	**3,551.7**	3,551.7

Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the Company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

16 NON-CONTROLLING INTERESTS

	EA1L £m	Other £m	Total £m
At 1 January 2021	1,088.8	2.2	1,091.0
Net profit for the year	47.0	0.5	47.5
Dividends	(55.8)	–	(55.8)
Changes in the values of cash flow hedges	(1.0)	–	(1.0)
At 1 January 2022	1,079.0	2.7	1,081.7
Net profit for the year	72.4	0.4	72.8
Dividends	(119.2)	–	(119.2)
Changes in the values of cash flow hedges	(0.1)	–	(0.1)
At 31 December 2022	**1,032.1**	**3.1**	**1,035.2**

(a) The following table summarises financial information relating to EA1L for the year ending 31 December 2022, before any Group consolidation adjustments. None of the Group's other subsidiaries that have a non-controlling interest are considered to be material to the Group.

	2022 £m	2021 £m
Non-current assets	1,675.7	1,810.1
Current assets	995.5	983.1
Non-current liabilities	(309.1)	(328.8)
Current liabilities	(74.0)	(68.8)
Net assets	**2,288.1**	2,395.6
Net assets attributable to non-controlling interest	915.2	958.2
Revenue	1,151.4	384.3
Dividends paid	(297.9)	(139.6)
Net profit for the year	190.8	142.6
Other comprehensive income	(0.4)	(2.6)
Total comprehensive income	**190.4**	140.0
Profit allocated to non-controlling interest	76.3	57.0
Other comprehensive income allocated to non-controlling interest	(0.2)	(1.0)
Cash flows from operating activities	1,006.3	291.3
Cash flows from investing activities	(11.9)	(103.1)
Cash flows from financing activities	(303.6)	(140.4)
Net increase in cash and cash equivalents	**690.8**	47.8

17 DEFERRED INCOME

Year ended 31 December 2021	Notes	At 1 January 2021 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	At 31 December 2021 £m
Transfer of assets from customers	(a), (b)	1,331.5	(0.6)	110.7	(43.9)	1,397.7

Year ended 31 December 2022	Note	At 1 January 2022 £m	Disposals £m	Receivable during year £m	Released to Income statement £m	**At 31 December 2022 £m**
Transfer of assets from customers		1,397.7	(1.6)	121.6	(45.3)	**1,472.4**
Other revenue-related deferred income		–	–	10.7	(0.4)	**10.3**
	(b)	1,397.7	(1.6)	132.3	(45.7)	**1,482.7**

Analysis of total deferred income	Note	**2022 £m**	2021 £m
Non-current	(a)	**1,425.5**	1,397.7
Current	(a)	**57.2**	–
		1,482.7	1,397.7

(a) The non-current deferred income balance at 31 December 2021 included £44.1 million which was released to the Consolidated income statement during 2022 in line with the amortisation of the associated property, plant and equipment. There has been a change in the classification of Deferred income in the current year (refer to Note 2A2.1).

(b) Transfer of assets from customers and other revenue-related deferred income are IFRS15 contract liabilities (refer to Note 22(b)).

18 OTHER PROVISIONS

Year ended 31 December 2021	Notes	At 1 January 2021 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2021 £m
Reorganisation and restructuring	(a)	1.4	5.2	–	(1.1)	(0.2)	5.3
Decommissioning costs	(b)	437.3	7.9	3.4	(4.4)	(1.2)	443.0
Renewables Obligation	(c)	291.9	458.7	–	(405.9)	–	344.7
Onerous contracts	(d)	0.7	–	–	(0.2)	(0.1)	0.4
Insurance	(e)	3.7	1.4	–	(0.1)	(1.0)	4.0
Other	(f)	1.1	0.7	–	–	(0.2)	1.6
		736.1	473.9	3.4	(411.7)	(2.7)	799.0

Year ended 31 December 2022	Notes	At 31 December 2021 £m	Adjustment due to IAS 37 £m	Adjusted balance at 1 January 2022 £m	Reassessment of decommissioning costs £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	**At 31 December 2022 £m**
Reorganisation and restructuring	(a)	5.3	–	5.3	–	5.3	–	(6.0)	(1.5)	**3.1**
Decommissioning costs	(b)	443.0	–	443.0	(179.1)	1.6	3.9	(8.6)	(4.0)	**256.8**
Renewables Obligation	(c)	344.7	–	344.7	–	434.1	–	(452.1)	–	**326.7**
Retail energy onerous contracts	(g)	–	60.0	60.0	–	–	–	(60.0)	–	**–**
Onerous contracts	(d)	0.4	–	0.4	–	–	–	(0.2)	–	**0.2**
Insurance	(e)	4.0	–	4.0	–	1.6	–	–	(1.9)	**3.7**
Other	(f)	1.6	–	1.6	–	–	–	–	–	**1.6**
		799.0	60.0	859.0	(179.1)	442.6	3.9	(526.9)	(7.4)	**592.1**

Analysis of total provisions	**2022 £m**	2021 £m
Non-current	**255.7**	448.8
Current	**336.4**	350.2
	592.1	799.0

(a) The reorganisation and restructuring provision relates to restructuring programmes within Energy Retail. This remaining balance of this provision is expected to be utilised in 2023.

(b) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The increase in the provision in 2021 resulted from a reassessment of future estimated costs. The decrease in 2022 resulted largely from an increase in the discount rates used in the calculations. The discount rates applied are based on UK treasury bonds with maturities which are similar to the expected decommissioning date. The discount rates utilised in the current year ranged from 3.46% to 3.91%. The increase in the discount rate more than offset the rise in the short to medium-term inflation rate. The decommissioning costs are expected to be incurred between 2023 and 2067.

Sensitivity analysis reflecting reasonably probable fluctuations to the main assumptions in the calculation of the decommissioning provision has been performed. Had the estimated value of the costs at the reporting date been 10% higher or lower, this would have resulted in the decommissioning provision being approximately £24.9 million higher and lower respectively. Had the inflation rate applied been 1% higher or lower, this would have resulted in the decommissioning provision being approximately £58.4 million higher and lower respectively. Had the discount rates applied been 1% lower or higher this would have resulted in the decommissioning provision being approximately £45.0 million lower and higher respectively. Refer to Note 3K which outlines the Group accounting policy in respect of decommissioning provisions.

(c) The provision for the Renewables Obligation principally represents the value of ROCs for 2022 expected to be delivered in 2023 and 2024. The utilisation of £452.1 million in the year represents the ROCs surrendered to meet the annual RO. This provision is not discounted. Refer to Note 3K for the accounting policy.

(d) The provision for other onerous contract relates to a property contract and is expected to be utilised between 2023 and 2026.

(e) The provision for insurance principally represents the value of claims reserves. The claims are expected to be settled between 2023 and 2025.

(f) The provisions at both 31 December 2022 and 31 December 2021 are not individually sufficiently material to warrant separate disclosure.

(g) Amendments to IAS 37 was effective for the Group from 1 January 2022. The impact of these amendments at 1 January 2022 was the recognition of a provision for £60.0 million, relating to Retail energy onerous contracts, which was fully utilised by 31 December 2022 (refer to Note 2B). At 31 December 2022, these contracts are no longer onerous as the economic benefits expected to be received from them now exceed the unavoidable costs of meeting the obligations under the contracts. This is partly due to the changes that have taken place to the Ofgem price cap mechanism.

19 LOANS AND OTHER BORROWINGS

(a) Analysis by instrument and maturity

	Notes	Interest rate 2022*	Interest rate 2021*	Maturity	2022 £m	2021 £m
Credit facility – initial margin	(i)	–	0.6%	On demand	–	200.0
Loans with Iberdrola Group companies		Base + 1%	Base + 1%	On demand	**2,288.3**	760.4
Loans with Iberdrola Group companies	(ii)	–	EURIBOR + 1.025%	28 March 2022	–	9.1
£250 million euro-sterling bond	(iii), (iv)	6.75%	6.75%	29 May 2023	**249.9**	249.8
Loan with joint venture		Base + 1%	Base + 1%	11 December 2023	**3.0**	3.0
£175 million inflation-linked bond	(iii), (v), (vi)	3.494% x RPI	3.494% x RPI	13 October 2024	**345.9**	314.4
£350 million euro-sterling bond	(iii), (v), (vii)	5.875%	5.875%	17 July 2026	**349.0**	348.7
£350 million euro-sterling bond	(iii),(v),(viii)	4.875%	4.875%	20 September 2027	**348.4**	348.1
Loans with Iberdrola Group companies	(ix), (x)	SONIA + CAS + 0.78%	LIBOR + 0.78%	20 December 2027	**570.0**	570.0
Loans with Iberdrola Group companies		3.05%	3.05%	20 December 2027	**900.0**	900.0
Loans with Iberdrola Group companies	(ix), (xi)	SONIA + 2.3%	LIBOR + 2.3%	1 March 2028	**100.0**	100.0
Loans with Iberdrola Group companies	(ix), (xi)	SONIA + 0.84%	LIBOR + 0.84%	1 March 2029	**650.0**	650.0
10 billion JPY loan	(xii)	4.6%	4.6%	27 July 2029	**76.1**	81.8
Loans with Iberdrola Group companies	(ix), (xi)	SONIA + 0.82%	LIBOR + 0.82%	1 March 2031	**500.0**	500.0
£350 million euro-sterling bond	(iii), (v), (xiii)	2.0%	2.0%	13 November 2031	**347.5**	347.2
£50 million medium-term note	(iii), (vi)	5.75%	5.75%	9 December 2039	**50.0**	50.0
£100 million medium-term note	(iii), (vi)	6.375%	6.375%	31 May 2041	**100.0**	100.0
Accrued interest					**75.5**	50.3
					6,953.6	5,582.8

Analysis of total loans and other borrowings	Note	2022 £m	2021 £m
Non-current		**4,147.8**	4,561.0
Current	(xiv)	**2,805.8**	1,021.8
		6,953.6	5,582.8

* Base - Bank of England Base Rate; EURIBOR - Euro Bank Offered Rate; RPI - Retail Price Index; SONIA - Sterling Overnight Index Average; SONIA + CAS - Sterling Overnight Index Average plus Credit Adjustment Spread; LIBOR - London Inter-Bank Offer Rate; JPY - Japanese Yen.

(i) During 2021, the Group agreed an amendment to its terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million. This was fully utilised at 31 December 2021 but was not in use at 31 December 2022. (Refer to Note 19 (c)(ii)).

(ii) The EURIBOR loan with Iberdrola that matured in March 2022 was repaid in full at maturity.

(iii) These bonds and notes contain a 'Loss of licence' covenant that will require repayment of the outstanding amount should the Group lose the relevant licence (distribution, transmission and supply licences).

(iv) The £250 million euro-sterling bond due in 2023 can be redeemed at any time by the Group at the higher of principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.

(v) The Group has external debt that contains loan covenants. None of these covenants require covenant ratios to be calculated. A future breach of covenants may require the Group to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the ScottishPower treasury function and regularly reported to management to ensure compliance with the agreements.

(vi) SPL and the Company have an established joint US$7 billion euro medium-term note programme. SPL has not issued under the programme. The Company has in issue various notes in Sterling which can be redeemed by the Company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(vii) The £350 million euro-sterling bond will be redeemed at its principal amount in July 2026 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.

(viii) The £350 million euro-sterling bond will be redeemed at its principal amount in September 2027 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.

(ix) As of 1 January 2022, all debt and hedging instruments which referenced LIBOR were amended to reference SONIA + CAS (where relevant) plus margin. This was implemented as a result of the LIBOR cessation from end of 2021. As of 2022, the interest applied is based on SONIA plus the relevant margin.

(x) This loan has the interest rates reset at pre-determined dates. The repayment of £190.0 million due in 2023 is classified as current in the above analysis at 31 December 2022.

(xi) These loans can be redeemed at any time by the Group, totally or partially, at market value (calculated as a present value of future cash flows discounted at the current internal rate of return, defined as market swap rate plus applicable credit spread at valuation date) giving five business days' notice to the lender. The lender may declare these loan agreements to have matured early in the event the lender's shareholding in the Group reduces to the extent that the Group no longer belongs to the Iberdrola Group.

(xii) The interest rate quoted above on the10 billion Japanese Yen loan is fixed. This is changed to a variable rate by a cross currency swap.

(xiii) The £350 million euro-sterling bond will be redeemed at its principal amount in November 2031 unless previously redeemed or purchased and cancelled. The bond can be redeemed at any time by the Group at a higher redemption price (as determined by a financial advisor appointed by the Group and Guarantor) giving 30 to 60 days' notice.

(xiv) Current borrowings at 31 December 2022 comprise loans with Iberdrola Group companies repayable on demand or within the next year, £250 million euro-sterling bond, the loan with a joint venture, accrued interest, the short-term element of the SONIA + CAS 2027 loan with Iberdrola (refer to footnote (x) above) and the short-term element of fair value hedge adjustments due to be amortised within one year, which totalled £(0.9) million (2021 £(1.0) million).

(xv) At 31 December 2022, the Group had £1.5 billion of undrawn committed facilities available. During March 2023, an additional £0.7 billion of committed revolving credit facility was agreed with SPL which has an expiry date of March 2025. Therefore at the date of signing these Accounts, the Company, and therefore the Group, has a total of £2.2 billion of undrawn committed facilities with SPL available (£1.0 billion expiring February 2025 and £1.2 billion expiring March 2025).

19 LOANS AND OTHER BORROWINGS *continued*

(b) Analysis by counterparty type

	2022 £m	2021 £m
Loans payable to Iberdrola Group companies	**5,011.3**	3,492.5
Loans payable to external counterparties	**1,866.8**	1,840.0
Accrued interest due to Iberdrola Group companies	**42.3**	17.5
Accrued interest due to external counterparties	**33.2**	32.8
Credit facility – initial margin	**–**	200.0
	6.953.6	5,582.8

(c) Reconciliation of movements of liabilities to cash flows arising from financing activities

	Notes	Lease liabilities £m	Loans and other borrowings (Current) £m	Loans and other borrowings (Non-current) £m	Other financial liabilities £m	Total £m
At 1 January 2021		497.7	2,534.9	3,320.9	43.5	6,397.0
Increase in amounts due to Iberdrola Group companies		–	(1,417.9)	1,250.0	–	(167.9)
Repayments of borrowings and other financial liabilities		–	(300.0)	–	(8.7)	(308.7)
Payments of lease liabilities		(23.8)	–	–	–	(23.8)
Interest paid		(15.2)	(149.1)	–	–	(164.3)
Total movements from financing cash flows	(i)	(39.0)	(1,867.0)	1,250.0	(8.7)	(664.7)
Transfer from non-current to current		–	9.1	(9.1)	–	–
Credit facility – initial margin	(ii)	–	200.0	–	–	200.0
Other movements	(iii)	52.0	144.8	(0.8)	–	196.0
Total liability-related other movements		52.0	353.9	(9.9)	–	396.0
At 31 December 2021		510.7	1,021.8	4,561.0	34.8	6,128.3

	Notes	**Lease liabilities £m**	**Loans and other borrowings (Current) £m**	**Loans and other borrowings (Non-current) £m**	**Other financial liabilities £m**	**Total £m**
At 1 January 2022		510.7	1,021.8	4,561.0	34.8	6,128.3
(Decrease)/increase in amounts due to Iberdrola Group companies		–	1,518.8	–	–	1,518.8
Repayments of borrowings and other financial liabilities		–	–	–	(11.0)	(11.0)
Payments of lease liabilities		(25.9)	–	–	–	(25.9)
Interest paid		(18.4)	(164.4)	–	–	(182.8)
Total movements from financing cash flows	(i)	**(44.3)**	**1,354.4**	**–**	**(11.0)**	**1,299.1**
Transfer from non-current to current		–	439.8	(439.8)	–	–
Credit facility – initial margin	(ii)	–	(200.0)	–	–	(200.0)
Other movements	(iii)	57.4	189.8	26.6	–	273.8
Total liability-related other movements		**57.4**	**429.6**	**(413.2)**	**–**	**73.8**
At 31 December 2022		**523.8**	**2,805.8**	**4,147.8**	**23.8**	**7,501.2**

(i) Total movements from financing cash flows do not include financing cash flows relating to equity. Cash flows not included relate to dividends paid.

(ii) During 2021, the Group agreed an amendment to its terms and conditions with its commodities derivative clearer which included an initial deposit margin facility of £200.0 million. This was fully utilised at 31 December 2021 but was not in use at 31 December 2022. The utilisation and subsequent closure of this deposit facility was reflected in the Statement of financial position as a non-cash transaction as detailed in the table below:

	2022 £m	2021 £m
Current trade and other receivables – other receivables (refer to Note 12)	**–**	200.0
Current Loans and other borrowings – credit facility initial margin	**–**	(200.0)
Net assets	**–**	–

(iii) Other movements includes non-cash movements including accrued interest expense and the acquisition of lease liabilities.

20 TRADE AND OTHER PAYABLES

	Notes	2022 £m	2021 £m
Current trade and other payables:			
Payables due to Iberdrola Group companies – trade		**1.7**	12.4
Payables due to joint ventures – trade		**2.4**	2.7
Trade payables	(a)	**1,004.2**	1,028.3
Other taxes and social security		**99.3**	68.3
Payments received on account		**154.9**	125.9
Capital payables and accruals		**322.7**	258.4
Collateral	(b)	**24.1**	270.7
Payables in respect of government support schemes	(c)	**174.1**	–
Other payables		**497.8**	137.7
	(d)	**2,281.2**	1,904.4
Non-current other payables:			
Capital payables and accruals		**0.4**	–
Other payables		**10.0**	8.8
		10.4	8.8

(a) Certain trade payables and receivables are presented net on the Statement of financial position when offsetting criteria under IAS 32 are met (refer to Note 3H2.3). A reconciliation between the gross and net position is provided at Note 11(d).

(b) The majority of the collateral balance in the current year relates to collateral held for Energy Networks customers. The majority of the collateral balance in the prior year relates to collateral held with commodity derivative counterparties. Collateral support agreements are used to manage credit exposure to commodity price changes and include margining for trading with exchanges. For further information on how the Group manages energy market risk refer to Notes 11(d) and 11(e) B.

(c) This balance primarily reflects funds received from the UK Government in relation to the EBSS which have not yet been paid to customers.

(d) Trade and other payables includes £614.5 million (2021 £225.7 million) of IFRS 15 contract liabilities (refer to Note 22(b)). These balances consist of Direct Debit customer payments that are in excess of the associated units of energy delivered (final customer credits), and payments on account for Energy Networks projects.

21 DEFERRED TAX

Deferred tax provided in the Accounts is as follows:

	Notes	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2021		1,022.8	38.9	(106.1)	(15.4)	(8.2)	932.0
Charge/(credit) to Income statement	(a)	432.8	(4.8)	–	(20.6)	(13.0)	394.4
Recorded in the Statement of comprehensive income	(a), (b)	–	184.1	157.7	(18.2)	–	323.6
At 1 January 2022		1,455.6	218.2	51.6	(54.2)	(21.2)	1,650.0
Charge/(credit) to Income statement		48.6	11.6	–	0.1	(6.6)	53.7
Recorded in the Statement of comprehensive income	(b)	–	(376.4)	9.3	18.2	–	(348.9)
At 31 December 2022		**1,504.2**	**(146.6)**	**60.9**	**(35.9)**	**(27.8)**	**1,354.8**

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax balances at 1 January 2021 were increased by £293.3 million to reflect the rate that the temporary differences are expected to reverse at.

(b) The Group have recognised the deferred tax on the surplus of the ScottishPower pension scheme at 25% rather than 35% because the expected manner of recovery of the surplus is not a refund and under IAS 12 'Income Taxes', the applicable rate in this circumstance is the prevailing Corporation Tax rate.

(c) At 31 December 2022, the Group had unutilised capital losses of £34.2 million (2021 £34.5 million). No deferred tax asset was recognised in either year due to the unpredictability of suitable future profit streams against which these losses may be utilised.

(d) Deferred tax assets have been recognised in respect of income tax losses as it has been assessed that it is probable that these losses will be utilised against future taxable profits, which are expected to arise in future years. This includes deferred tax assets in respect of past Energy Retail trading losses, given the expected improved profitability of the business.

(e) Deferred tax assets, recognised in respect of trading losses, are expected to be recovered within the next two years based on the current forecast profitability of the Group. The forecasts used in assessing deferred tax asset recoverability are consistent with those used for the Group's impairment and going concern assessments.

22 REVENUE

(a) Disaggregation of revenue

	Notes	2022 Energy Networks £m	2022 Renewables £m	2022 Energy Retail and Wholesale £m	2022 Total £m
Segment revenue		1,380.4	1,714.0	6,586.2	**9,680.6**
Inter-segment revenue	(i)	(159.7)	(1,068.8)	(17.2)	**(1,245.7)**
External revenue		1,220.7	645.2	6,569.0	**8,434.9**
Electricity distribution		789.9	–	–	**789.9**
Electricity transmission		385.5	–	–	**385.5**
Transfers of assets from customers		45.3	–	–	**45.3**
Supply of electricity	(iii)	–	–	4,219.8	**4,219.8**
Supply of gas	(iii)	–	–	1,511.7	**1,511.7**
Revenue received from government support schemes	(ii)	–	–	591.5	**591.5**
Derivative income		–	(19.5)	200.5	**181.0**
Sale of offshore transmission asset		–	682.4	–	**682.4**
CfD		–	(76.3)	–	**(76.3)**
Other		–	58.6	45.5	**104.1**
		1,220.7	645.2	6,569.0	**8,434.9**

	Note	2021 Energy Networks £m	2021 Renewables £m	2021 Energy Retail and Wholesale £m	2021 Total £m
Segment revenue		1,276.3	863.4	4,107.3	6,247.0
Inter-segment revenue	(i)	(136.7)	(750.0)	(10.6)	(897.3)
External revenue		1,139.6	113.4	4,096.7	5,349.7
Electricity distribution		700.9	–	–	700.9
Electricity transmission		394.8	–	–	394.8
Transfers of assets from customers		43.9	–	–	43.9
Supply of electricity		–	–	2,999.3	2,999.3
Supply of gas		–	–	995.0	995.0
Derivative income		–	–	59.9	59.9
CfD		–	68.0	–	68.0
Other		–	45.4	42.5	87.9
		1,139.6	113.4	4,096.7	5,349.7

(i) Energy Networks inter-segment revenue is predominantly subject to regulation and is based on published tariffs set by Ofgem. Renewables inter-segment revenue primarily consists of the sale of electricity and ROCs from wind farms. Energy Retail and Wholesale inter-segment revenue largely consists of the supply of electricity and gas.

(ii) Revenue received for the year ended 31 December 2022 in respect of the EPG and EBRS schemes (accounted for as government grants) was £513.6 million and £77.9 million respectively. Revenue received in relation to the EBSS scheme (accounted for under IFRS 15) was £498.5 million offset by an equal amount being the consideration paid to customers.

(iii) As explained in Note 3M(d), Revenue from the supply of electricity and gas includes an estimate of the units supplied to customers between the date of their last meter reading and the year end. The estimated value of energy delivered to customers is included within billed revenue (where an estimated reading is included within an issued invoice) and unbilled revenue (where no invoice has been issued). For further details on billed revenue, refer to Note 11(e)A3. Gross unbilled revenue included within the Statement of financial position at 31 December 2022 amounts to £1,263.7 million (2021 £655.6 million). This is before applying customer credit balances of £1,124.7 million (2021 £526.5 million), a £28.0 million (2021 £21.3 million) provision in respect of ECLs and a £20.9 million (2021 £30.2 million) provision in relation to energy volumes which have still to reach final settlement. This results in a net unbilled position at 31 December 2022 of £90.1 million (2021 £77.6 million), which relates primarily to energy delivered in the final months of the year. For further details on ECLs, refer to Note 11(e)A3.

Had actual consumption been 4.0% higher or lower than the estimate of units supplied (the average variance based on recent historical analysis), this would have resulted in revenue recognised for unbilled amounts being £51.4 million higher and lower respectively. The value assigned to this volume sensitivity is based on a weighted average price per unit derived from the billing systems. Approximately 93% of unbilled revenue relates to the most recent quarter where there is a higher level of estimation uncertainty.

All revenue is recognised over time and arises from operations within the UK and Republic of Ireland. Revenue arising outside the UK is not deemed material enough to warrant separate disclosure.

(b) Contract balances

	Notes	31 December 2022 £m	31 December 2021 £m	1 January 2021 £m
Receivables	(i), (ii)	**1,119.6**	779.8	785.8
Contract liabilities	(iii), (iv)	**(2,097.2)**	(1,623.4)	(1,540.6)

(i) Included within Trade and other receivables (refer to Note 12).

(ii) £83.8 million (2021 £100.5 million) of net expected credit losses were recognised during the year on receivables arising from the Group's contracts with customers.

(iii) £1,472.4 million (2021 £1,397.7 million) of contract liabilities relates to the transfer of assets from customers and £10.3 million (2021 £nil) relates to other revenue-related deferred income both of which are recorded within Deferred income (refer to Note 17). The remainder is included within Trade and other payables (refer to Note 20).

(iv) The amount of contract liabilities recognised as income in the year is £132.0 million (2021 £103.3 million). The remaining movement in contract liabilities relates to new liabilities recognised in the year. The increase is primarily due to the value of Energy Retail and Wholesale customer credits increasing as a result of higher commodity costs flowing through to customer bills. The value of customer credits is expected to reduce in the first half of 2023 with seasonal demand peaks.

(c) Customer contract costs

During the year, £21.8 million (2021 £75.1 million) of incremental costs of obtaining a contract (customer contract costs) were capitalised and the amortisation charge was £66.9 million (2021 £62.5 million). Refer to Note 6(a).

23 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2022 £m	2021 £m
Wages and salaries		**321.7**	310.0
Social security costs		**35.8**	33.1
Pension and other costs	(i)	**76.0**	13.3
Total staff costs		**433.5**	356.4
Less: capitalised staff costs		**(173.9)**	(164.6)
Charged to the Income statement		**259.6**	191.8

(i) Pension and other costs for 2021 included a credit of £85.7 million from a revaluation of a pension scheme (refer to Note 9) and costs of £13.7 million for Group-wide restructuring programmes.

(b) Employee numbers

The average numbers of employees (full and part-time) employed by the Group, including UK-based directors, were:

	2022	2021
Energy Networks	**3,227**	3,013
Renewables	**657**	604
Energy Retail and Wholesale	**1,346**	1,471
Corporate	**541**	526
	5,771	5,614

24 TAXES OTHER THAN INCOME TAX

	Note	2022 £m	2021 £m
Property taxes		**120.3**	121.1
Other taxes	(a)	**77.8**	110.7
		198.1	231.8

(a) Other taxes mainly comprises obligations specific to the energy industry, principally ECO and WHD.
(b) The UK Government announced on 17 November 2022, as part of the Autumn Statement, a proposal for a Electricity Generator Levy that is expected to apply from 1 January 2023. A new 45% tax will be levied on 'extraordinary returns' from low-carbon UK power generation meeting certain conditions. The Group is aware of this expected levy introduction but is unable to fully quantify its impact on the future tax liability as the legislation is currently at a draft stage.

25 DEPRECIATION AND AMORTISATION CHARGE, ALLOWANCES AND PROVISIONS

	2022 £m	2021 £m
Property, plant and equipment depreciation charge	**630.2**	600.3
Right-of-use asset depreciation charge	**33.9**	31.6
Intangible asset amortisation charge	**116.4**	125.9
Charges and provisions, allowances and impairment of assets	**13.2**	11.0
	793.7	768.8
Capitalised right-of-use asset depreciation	**(5.8)**	(6.0)
	787.9	762.8

26 FINANCE INCOME

	2022 £m	2021 £m
Interest on bank and other deposits	**4.9**	0.2
Interest receivable from Iberdrola Group companies	**19.5**	10.7
Net interest on retirement benefit obligations	**5.0**	–
Foreign exchange gains	**2.1**	3.8
Fair value and other gains on financing derivatives	**74.1**	0.1
Fair value gains on contingent consideration	**3.2**	–
	108.8	14.8

27 FINANCE COSTS

	Note	2022 £m	2021 £m
Interest on bank loans and overdrafts		**0.4**	–
Interest on amounts due to Iberdrola Group companies		**99.8**	61.2
Interest on other borrowings		**116.3**	94.3
Net impairment of financing and investment instruments		**0.2**	0.1
Unwinding of discount on provisions		**3.9**	3.4
Interest on lease liabilities		**19.2**	17.7
Foreign exchange losses		**2.6**	2.7
Net interest on retirement benefit obligations		**–**	6.5
Fair value and other losses on financing derivatives		**9.7**	0.3
Fair value movement on contingent consideration		**–**	3.7
		252.1	189.9
Capitalised interest	(a)	**(8.7)**	(5.3)
		243.4	184.6

(a) The tax relief on the capitalised interest for the year ended 31 December 2022 was £1.7 million (2021 £1.0 million).

28 INCOME TAX

	2022 £m	2021 £m
Current tax:		
UK Corporation Tax charge on profits for the year	**82.2**	46.8
Adjustments in respect of prior years	**5.5**	7.4
Current tax for the year	**87.7**	54.2
Deferred tax:		
Origination and reversal of temporary differences	**71.7**	104.6
Adjustments in respect of prior years	**(18.0)**	(14.0)
Impact of tax rate change	**–**	303.8
Deferred tax for the year	**53.7**	394.4
Income tax expense for the year	**141.4**	448.6

The tax charge on profit on ordinary activities for the year varied from the standard rate of UK Corporation Tax applicable to Group companies as follows:

	2022 £m	2021 £m
Corporation Tax at 19% (2021 19%)	**133.2**	104.6
Adjustments in respect of prior years	**(12.5)**	(6.6)
Impact of tax rate change on opening deferred tax balance	**–**	303.8
Impact of tax rate change on current year charge	**19.0**	31.9
Non-deductible expenses and other permanent differences	**1.7**	14.9
Income tax expense for the year	**141.4**	448.6

Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly deferred tax balances at 1 January 2021 increased by £303.8 million reflecting the rate that the temporary differences are expected to reverse at.

Comparison of UK Corporation Tax charge and payments	2022 £m	2021 £m
UK Corporation Tax charge on profits for the year	**82.2**	46.8
UK Corporation Tax in the Statement of cash flows	**22.6**	93.4
Current tax asset recognised in the Statement of financial position	**78.8**	67.7

The amount of Corporation Tax paid in the year, shown in the Consolidated statement of cash flows, and the amount of the Corporation Tax charge for the year are not the same. The four installment payments that are required during the year are based on forecasts of the total Corporation Tax charged in the Consolidated income statement and the Consolidated statement of comprehensive income. In addition, the amount in the Consolidated statement of cash flows also includes any refunds received or payments made relating to Corporation Tax liabilities of prior years.

The current tax assets recognised in the Statement of financial position at 31 December 2022 and 2021 arose largely as a consequence of the significant historical losses arising in the Energy Retail and Wholesale division.

29 DIVIDENDS

	2022 pence per ordinary share	2021 pence per ordinary share	2022 £m	2021 £m
Interim dividend paid	**10.1**	–	**715.0**	–

30 CONTINGENT LIABILITIES

East Anglia One Limited's exemption from the legislative requirement to hold a transmission licence under the Electricity Act 1989 ("the legislative requirement") expired on 13 December 2021 ("the exemption date"). Following due consideration of relevant legal, contractual and regulatory implications and as a result of positive engagement with, and assurances from, the then Department for Business Energy and Industrial Strategy ("BEIS") and Ofgem, the project continued to generate and transmit electricity beyond the exemption date. On 10 June 2022, East Anglia One Limited was granted an exemption from the legislative requirement from 10 June 2022 until 13 April 2023. The offshore transmission assets were subsequently sold on 20 December 2022 bringing to an end the need for an exemption from the legislative requirement.

Regulatory inquiries

From time to time, Ofgem open inquiries with the Group in relation to compliance with licences, laws and regulations. Energy Networks is currently involved in one such matter and is working proactively with Ofgem to reach a conclusion; the directors consider the probability of a material financial impact to be remote.

Legal proceedings

ScottishPower's businesses are party to various other legal claims, actions and complaints, certain of which may involve material amounts. ScottishPower is unable to predict with certainty whether or not it will ultimately be successful in these legal proceedings or, if not, what the impact might be. ScottishPower currently believes that resolution of these matters will not have a materially adverse effect on the Consolidated accounts.

31 FINANCIAL COMMITMENTS

Contractual commitments

ScottishPower manages its energy resource requirements by integrating long-term firm, short-term and spot market purchases with its own generating resources to manage volume and price volatility and maximise value across the energy value chain. As part of its energy resource portfolio, the Group is committed under long-term purchase contracts summarised in the tables below.

2022	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m	2028 and thereafter £m	Total £m
Long-term energy purchase contract commitments	4,485.8	399.1	61.1	4.1	–	–	**4,950.1**
Other contractual commitments	169.0	76.2	57.0	52.3	47.7	115.1	**517.3**

2021	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Long-term energy purchase contract commitments	3,028.5	389.6	89.5	6.1	–	–	3,513.7
Other contractual commitments	255.2	54.4	49.6	55.3	47.9	159.2	621.6

32 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business

	2022				2021			
	Ultimate parent (Iberdrola, S.A.) £m	**Immediate parent (Scottish Power Limited) £m**	**Other Iberdrola Group companies £m**	**Joint ventures £m**	Ultimate parent (Iberdrola, S.A.) £m	Immediate parent (Scottish Power Limited) £m	Other Iberdrola Group companies £m	Joint ventures £m
Types of transaction								
Sales and rendering of services	**–**	**1.9**	**60.9**	**2.0**	–	1.3	50.5	1.3
Purchases and receipt of services	**(32.0)**	**(0.6)**	**(53.0)**	**(19.6)**	(32.7)	(0.6)	(44.6)	(16.1)
Interest costs (excluding ECLs)	**–**	**(87.3)**	**(12.5)**	**–**	(0.2)	(55.3)	(5.7)	–
Interest income	**–**	**19.5**	**–**	**–**	–	10.7	–	–
Net gains/(losses) on foreign exchange	**0.1**	**(0.1)**	**–**	**–**	1.8	(1.8)	–	–
Net (losses)/gains on financing derivatives	**(6.2)**	**70.6**	**–**	**–**	–	(0.2)	–	–
Changes in the value of cash flow hedges	**–**	**13.5**	**–**	**–**	–	8.8	–	–
Dividends paid	**–**	**(715.0)**	**–**	**–**	–	–	–	–
Balances outstanding								
Loans receivable	**–**	**1,224.8**	**–**	**–**	–	1,177.5	–	–
Trade and other receivables	**–**	**1.8**	**25.4**	**3.5**	–	1.7	34.3	4.3
Interest receivable	**–**	**19.5**	**–**	**–**	–	10.3	–	–
Derivative financial assets	**1.6**	**81.1**	**–**	**–**	–	0.2	24.7	–
Loans payable	**–**	**(4,438.3)**	**(570.0)**	**(3.0)**	(9.1)	(2,910.4)	(570.0)	(3.0)
Trade and other payables	**–**	**(1.2)**	**(0.5)**	**(2.4)**	–	(1.1)	(11.3)	(2.7)
Interest payable	**–**	**(41.5)**	**(0.8)**	**–**	–	(17.3)	(0.2)	–
Derivative financial liabilities	**(7.8)**	**(2.1)**	**–**	**–**	–	(0.7)	(2.3)	–
ECLs on								
Loans and interest receivable	**–**	**0.1**	**–**	**–**	–	0.1	–	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received in relation to inter-group transactions.

(b) Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below. The remuneration of all 13 (2021 15) key management personnel who served during the year is included within staff costs at Note 23(a).

	2022 £m	2021 £m
Short-term employee benefits	**3.6**	4.8
Post-employment benefits	**0.4**	0.3
Termination benefits	**–**	0.2
Share-based payments	**3.7**	4.5
	7.7	9.8

(c) Directors' remuneration

The remuneration of the directors who provided qualifying services to the Group is set out below. All of the directors were remunerated by the Group during both years. All of the directors (2021 all) were remunerated directly by the Company.

	2022 £000	2021 £000
Aggregate remuneration in respect of qualifying services	**911**	1,051
Aggregate contributions to a defined contribution pension scheme	**20**	20
Aggregate compensation for loss of office	**–**	176
Number of directors who exercised share options	**3**	4
Number of directors who received shares under a long-term incentive scheme	**2**	3
Number of directors accruing retirements benefits under a defined benefit scheme	**1**	3
Number of directors accruing retirement benefits under a defined contribution scheme	**1**	1

Highest paid director	**2022 £000**	2021 £000
Aggregate remuneration	**353**	425
Accrued pension benefit	**71**	69

(i) The highest paid director received a benefit under a long-term share incentive scheme in both years.
(ii) The highest paid director exercised share options in both years.

32 RELATED PARTY TRANSACTIONS *continued*

(d) Immediate and ultimate parent company

The immediate parent company is Scottish Power Limited which is also the parent company of the smallest group in which the results of the Company are consolidated. Copies of the consolidated accounts of Scottish Power Limited may be obtained from its registered office at 320 St. Vincent Street, Glasgow, Scotland, G2 5AD.

The directors regard Iberdrola, S.A. (incorporated in Spain) as the ultimate parent company, which is also the parent company of the largest group in which the results of the Company are consolidated. Copies of the consolidated accounts of Iberdrola, S.A. may be obtained from its registered office at Iberdrola, S.A., Torre Iberdrola, Plaza Euskadi 5, 48009, Bilbao, Spain.

In addition to the Company's parent undertakings disclosed above, the Group's other related undertakings are disclosed in Appendix 1.

33 AUDITOR'S REMUNERATION

	2022 £m	2021 £m
Audit of the Company and Consolidated annual accounts	**0.7**	0.5
Audit of the Company's subsidiaries pursuant to legislation	**2.8**	1.9
Audit of the Group's pension schemes pursuant to legislation	**0.1**	0.1
Audit fees	**3.6**	2.5
Audit-related assurance services	**0.1**	0.1
	3.7	2.6

(a) For the year ended 31 December 2022, all fees paid to the Group's auditors of £3.6 million (2021 £2.5 million) were charged to the Income statement. The Group's SPPS pension scheme paid the fees of £0.1 million (2021 £0.1 million) relating to that scheme's audit.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF FINANCIAL POSITION
at 31 December 2022

	Notes	2022 £m	2021 £m
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	35	**20.5**	18.7
Property, plant and equipment	36	**45.0**	46.4
Right-of-use-assets	37	**91.2**	87.0
Pensions asset	38	**341.9**	291.7
Non-current financial assets		**5,050.5**	5,056.2
Investments in subsidiaries	39	5,023.5	5,023.5
Other investments	39, 40	0.1	0.2
Derivative financial instruments	40	26.9	32.5
Non-current trade and other receivables	41	**3,119.3**	2,535.5
TOTAL NON-CURRENT ASSETS		**8,668.4**	8,035.5
CURRENT ASSETS			
Current trade and other receivables	41	**323.1**	232.0
Current tax assets		**28.8**	3.3
Current financial assets		**0.7**	1.1
Derivative financial instruments	40	0.7	1.1
TOTAL CURRENT ASSETS		**352.6**	236.4
TOTAL ASSETS		**9,021.0**	8,271.9
EQUITY AND LIABILITIES			
EQUITY			
Of shareholders of the parent		**6,066.8**	5,558.4
Share capital	42, 43	3,551.7	3,551.7
Share premium	43	398.2	398.2
Hedge reserve	43	1.2	1.0
Other reserve	43	420.4	420.4
Retained earnings – opening balance	43	1,187.1	141.2
Retained earnings – profit for the year	43	1,263.5	586.3
Retained earnings – other movements	43	(755.3)	459.6
Retained earnings – closing balance	43	1,695.3	1,187.1
TOTAL EQUITY		**6,066.8**	5,558.4
NON-CURRENT LIABILITIES			
Non-current provisions		**104.9**	102.5
Provision for retirement benefit obligations	38	101.9	99.5
Other provisions	44	3.0	3.0
Bank borrowings and other non-current financial liabilities		**1,722.0**	1,946.2
Loans and other borrowings	45	1,722.0	1,946.2
Non-current lease liabilities	37	**111.2**	107.9
Non-current trade and other payables	46	**4.8**	3.7
Deferred tax liabilities	47	**56.7**	29.5
TOTAL NON-CURRENT LIABILITIES		**1,999.6**	2,189.8
CURRENT LIABILITIES			
Current provisions		**1.5**	1.5
Other provisions	44	1.5	1.5
Bank borrowings and other current financial liabilities		**914.0**	482.5
Current financial liabilities		23.8	34.8
Loans and other borrowings	45	890.2	447.6
Derivative financial instruments	40	–	0.1
Current lease liabilities	37	**7.8**	6.2
Current trade and other payables	46	**31.3**	33.5
TOTAL CURRENT LIABILITIES		**954.6**	523.7
TOTAL LIABILITIES		**2,954.2**	2,713.5
TOTAL EQUITY AND LIABILITIES		**9,021.0**	8,271.9

Authorised for issue by the SPUK Board and signed on its behalf on 18 April 2023.

Nicola M. Connelly

Nicola Connelly
Director

The accompanying Notes 34 to 53 and Appendix 1 are an integral part of the Company statement of financial position at 31 December 2022.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2022

	Note	2022 £m	2021 £m
NET PROFIT FOR THE YEAR		**1,263.5**	586.3
OTHER COMPREHENSIVE INCOME			
Items that may be subsequently released to the Income statement:			
Cash flow hedges:			
Changes in the value of cash flow hedges	43	**0.3**	(1.4)
Tax relating to cash flow hedges	43	**(0.1)**	0.2
		0.2	(1.2)
Items that will not be reclassified to the Income statement:			
Retirement benefits:			
Movements in retirement benefits	43	**(49.5)**	586.0
Tax relating to movements in retirement benefits	43	**9.2**	(126.4)
		(40.3)	459.6
OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(40.1)**	458.4
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,223.4**	1,044.7

Total comprehensive income for both years is wholly attributable to the equity holder of Scottish Power UK plc.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2022

	Share capital £m	Share premium £m	Hedge reserve £m	Other reserve £m	Retained earnings £m	Total £m
At 1 January 2021	3,551.7	398.2	2.2	420.4	141.2	4,513.7
Total comprehensive income for the year	–	–	(1.2)	–	1,045.9	1,044.7
At 1 January 2022	3,551.7	398.2	1.0	420.4	1,187.1	5,558.4
Total comprehensive income for the year	–	–	0.2	–	1,223.2	1,223.4
Dividends	–	–	–	–	(715.0)	(715.0)
At 31 December 2022	**3,551.7**	**398.2**	**1.2**	**420.4**	**1,695.3**	**6,066.8**

The accompanying Notes 34 to 53 and Appendix 1 are an integral part of the Company statement of comprehensive income and the Company statement of changes in equity for the year ended 31 December 2022.

SCOTTISH POWER UK PLC
COMPANY STATEMENT OF CASH FLOWS
for the year ended 31 December 2022

	2022 £m	2021 £m
Cash flow from operating activities		
Profit before tax	**1,252.3**	591.1
Adjustments for:		
Depreciation, amortisation and impairment	**27.1**	29.0
Change in provisions	**–**	(0.4)
Net finance income and costs	**40.5**	133.8
Shareholding income	**(1,293.3)**	(640.8)
Net loss on disposal/write-off of non-current assets	**–**	0.5
Movement in retirement benefits	**(92.3)**	(171.3)
Changes in working capital:		
Change in trade and other receivables	**(9.2)**	75.8
Change in trade and other payables	**(3.0)**	(116.4)
Provisions paid	**(0.1)**	(1.9)
Income taxes received	**22.2**	27.2
Interest received	**68.8**	55.6
Dividends received	**1,293.3**	640.8
Net cash flows from operating activities (i)	**1,306.3**	623.0
Cash flows from investing activities		
Investments in intangible assets	**(11.7)**	(10.0)
Investments in property, plant and equipment	**(7.6)**	(6.1)
(Increase)/decrease in amounts due from Iberdrola Group companies – current loans receivable	**(76.7)**	216.0
Increase in amounts due from Iberdrola Group companies – non-current loans receivable	**(583.9)**	(645.0)
Net cash flows from investing activities (ii)	**(679.9)**	(445.1)
Cash flows from financing activities		
Increase/(decrease) in amounts due to Iberdrola Group companies – current loans payable	**182.0**	(942.8)
Increase in amounts due to Iberdrola Group companies – non-current loans payable	**–**	1,150.0
Dividends paid to equity holder	**(715.0)**	–
Interest paid	**(72.7)**	(65.5)
Interest paid on lease liabilities	**(3.8)**	(3.5)
Repayments of borrowings (financial liabilities)	**(11.0)**	(308.7)
Payment of lease liabilities	**(5.9)**	(7.4)
Net cash flow from financing activities (iii)	**(626.4)**	(177.9)
Net movement in cash and cash equivalents (i) + (ii) + (iii)	**–**	–
Cash and cash equivalents at beginning of year	**–**	–
Cash and cash equivalents at end of the year	**–**	–

The accompanying Notes 34 to 53 and Appendix 1 are an integral part of the Company statement of cash flows for the year ended 31 December 2022.

34 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES

A COMPANY INFORMATION AND ACTIVITIES

Scottish Power UK plc (registered company number SC117120) is a private company limited by shares. It is incorporated in Scotland and its registered address is 320 St. Vincent Street, Glasgow, Scotland, G2 5AD. The Company financial statements present information about the Company as a separate entity, and not about the Group.

The Company principally acts as the holding company of the Scottish Power UK plc group, whose activities are set out in Note 1 to the Consolidated financial statements, and has its own board of directors. The Company's immediate parent company, SPL, is the holding company of the SPL group.

B BASIS OF PREPARATION

B1 BASIS OF PREPARATION OF THE COMPANY ACCOUNTS

The Company is required by law to prepare accounts and to deliver them to the Registrar of Companies. The Company accounts are prepared in accordance with the accounting policies set out in Note 34C. Monetary amounts are presented in pounds Sterling and rounded to the nearest hundred thousand unless otherwise indicated. The Company financial statements are prepared on the historical cost basis apart from certain financial assets and liabilities which are measured at fair value.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101"). In preparing these financial statements, the Company has applied the recognition, measurement and disclosure requirements of UK-adopted international accounting standards including newly effective IAS for the year ended 31 December 2022 as noted in Note 2B. The application of these amendments has not had a material impact on the Company's accounting policies, financial position or performance. In applying FRS 101, the Company has made amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken:

- reconciliation of movements of liabilities to cash flows arising from financing activities;
- comparative period reconciliations for intangible assets and property, plant and equipment;
- disclosures in respect of transactions with wholly owned subsidiaries of Iberdrola, S.A.;
- disclosures in respect of capital management;
- the effects of new, but not yet effective, IAS pronouncements; and
- disclosures in respect of the compensation of key management personnel.

As the consolidated financial statements of Iberdrola, S.A. include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of certain disclosures required by IFRS 13 and the disclosures required by IFRS 7.

B2 GOING CONCERN

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 to 23.

The Company statement of financial position presents net current liabilities of £602.0 million as at 31 December 2022. The Company financial statements have been prepared on a going concern basis which the directors consider to be appropriate for the following reasons.

The Company is the parent company of the Scottish Power UK plc Group which, is a significant component of Iberdrola, one of the world's largest integrated utilities. The Company participates in a UK treasury function operated by the Company's immediate parent undertaking, Scottish Power Limited. The UK treasury function works closely with Iberdrola to manage the Company's and the Group's funding requirements, which are reviewed and adjusted on a regular basis using a mixture of external funding and funding provided via Iberdrola through the global treasury function.

For the purposes of the directors' assessment of the Company's going concern position and to satisfy them of the Company's ability to pay its liabilities as they fall due, the directors have prepared a Company statement of cash flows for a period of at least one year from the date of approval of these financial statements. Whilst the Company has net current liabilities of £602.0 million as at 31 December 2022, this principally reflects the Company's net short-term intercompany loan position of £330.6 million at the reporting date. As stated in Note 45(i), at the date of signing the Company accounts, the Company also has £2.2 billion of committed facilities available. However, the directors have taken into consideration three inter-group committed revolving credit facilities that have been put in place by the Company for subsidiary entities totalling £750.0 million. Whilst these facilities have never been drawn, for the purpose of the preparation of forecasts, the directors consider that the Company has £750.0 million of committed facilities available. The cash flow forecasts indicate that, even under the severe but plausible downside scenario, the Company's existing resources and committed facilities, are sufficient to enable it to trade and pay its liabilities as they fall due for the forecast period.

Consequently, the directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least one year from the date of approval of the Company financial statements, and therefore have prepared the aforementioned financial statements on a going concern basis.

C JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES

In determining and applying the Company's principal accounting policies, judgement is often required in respect of items which have a significant effect on the reported amounts of assets, liabilities, income and expenses recognised in the Company financial statements. Other than those involving estimates, the Company has no such judgements. At 31 December 2022, assumptions made about the future and other major sources of estimation uncertainty which have significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities in the next financial year are detailed below.

- Retirement benefit obligation (including valuation of level 3 pension plan assets) – Notes 3F and 38.

The impact of climate change, including risks identified in the Strategic Report on page 25, on the Company's financial statements has been considered. No material impact on the judgements and estimates made in the preparation of the Company's financial statements has been identified (refer to Note 3 for more details).

34 COMPANY INFORMATION AND PRINCIPAL ACCOUNTING POLICIES *continued*

C JUDGEMENTS, ESTIMATION UNCERTAINTIES AND PRINCIPAL ACCOUNTING POLICIES *continued*

The principal accounting policies applied in preparing the Company's financial statements are set out below:

Investments

The Company's investments in subsidiaries are stated in the Company statement of financial position at cost, or fair value of shares issued as consideration where applicable. Dividends from subsidiaries are recognised when the right to receive the dividend is established.

Applicable Group accounting policies

The following principal accounting policies applied by the Company are consistent with those applied for the Group financial statements:

- Other intangible assets (refer to Note 3B);
- Property, plant and equipment (refer to Note 3C);
- Leased assets (refer to Note 3D);
- Impairment of intangible assets, property, plant and equipment and leased assets (refer to Note 3E);
- Retirement benefits (refer to Note 3F)
- Financial instruments (refer to Note 3H);
- Decommissioning costs (refer to Note 3K); and
- Taxation (refer to Note 3Q).

35 INTANGIBLE ASSETS

Year ended 31 December 2022	Note	Computer software (Note (a)) £m	Licences £m	Total £m
Cost:				
At 1 January 2022		110.8	5.4	116.2
Additions	(b)	12.5	–	12.5
Disposals		(3.6)	(5.4)	(9.0)
At 31 December 2022		**119.7**	**–**	**119.7**
Amortisation:				
At 1 January 2022		92.1	5.4	97.5
Amortisation for the year		10.7	–	10.7
Disposals		(3.6)	(5.4)	(9.0)
At 31 December 2022		**99.2**	**–**	**99.2**
Net book value:				
At 31 December 2022		**20.5**	**–**	**20.5**
At 1 January 2022		18.7	–	18.7

(a) The cost of fully amortised computer software still in use at 31 December 2022 was £77.1 million (2021 £79.9 million).
(b) Included within computer software additions is £0.9 million (2021 £0.6 million) from internal development.

36 PROPERTY, PLANT AND EQUIPMENT

(a) Movements in property, plant and equipment in use

Year ended 31 December 2022	Property, plant and equipment in use £m
Cost:	
At 1 January 2022	105.0
Additions	8.6
Disposals	(0.6)
At 31 December 2022	**113.0**
Depreciation:	
At 1 January 2022	58.6
Charge for the year	10.0
Disposals	(0.6)
At 31 December 2022	**68.0**
Net book value:	
At 31 December 2022	**45.0**
At 1 January 2022	46.4

(i) Property, plant and equipment in use principally comprises fixtures and fittings and IT equipment.
(ii) The cost of fully depreciated property, plant and equipment still in use at 31 December 2022 was £35.5 million (2021 £27.5 million).

36 PROPERTY, PLANT AND EQUIPMENT *continued*

(b) Capital commitments

	2022						
	2023 £m	**2024 £m**	**2025 £m**	**2026 £m**	**2027 £m**	**2028 and thereafter £m**	**Total £m**
Contracted but not provided	**1.0**	**0.4**	**0.5**	**0.8**	**1.5**	**3.9**	**8.1**

	2021						
	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m	2027 and thereafter £m	Total £m
Contracted but not provided	0.2	–	–	–	–	–	0.2

37 LEASING

A LESSEE

The Company leases many assets including buildings, vehicles and other equipment. Information about leases for which the Company is a lessee is presented below.

(a) Nature of leases

Buildings

The Company leases buildings primarily for its office space, and retail space (which is sub-let). The leases typically have lease terms running from ten to 25 years. Certain leases have options to extend the term by up to ten years at the end of the existing term. Most contracts have no termination options, whilst certain contracts have specific break options exercisable five or ten years before the contract end date.

The lease for the head office building has a 25 year term ending in 2041 at which point the Company has the right to extend the lease to 2046 (and to 2051 at 2046). It is currently not deemed reasonably certain that these extension options will be taken. However, should they be taken, the estimated increase in the lease liability would be £5.7 million and a further £10.0 million respectively.

The Company sub-leases some of its properties under operating leases (refer to Note 37B). Where the unavoidable costs of meeting the obligations under these contracts exceeds the economic benefits expected to be received under them, the right-of-use assets have been appropriately impaired.

Vehicles

The Company leases vehicles with lease terms of between two and five years, primarily being pool vehicles to mobilise its operational staff.

Other equipment

The Company leases office equipment with lease terms typically of seven years.

Variable lease payments

Certain building leases contain variable lease payments that are based on the building services supplied; a common payment term for this type of lease. The fixed annual payments for the year were £9.7 million compared to variable payments of £0.4 million. The Company expects the relative proportion of fixed and variable lease payments to remain broadly consistent in future years.

Extension options

Some building and equipment leases contain extension options exercisable by the Company at the end of the non-cancellable contract period or an agreed point before that date. Where practicable, the Company seeks to include extension options in leases to provide operational flexibility. Those options held are exercisable only by the Company and not by the lessors. At lease commencement, the Company will assess whether it is reasonably certain to exercise the extension options and reassesses this if there is a significant event or change in circumstances within its control.

Other information

The Company has not committed to any leases that have not yet commenced. The Company has no contracts containing residual value guarantees, no leases subject to significant restrictions or covenants, and no sale and leaseback transactions.

37 LEASING *continued*

A LESSEE *continued*

(b) Right-of-use assets

Year ended 31 December 2021	Notes	Buildings £m	Vehicles £m	Other equipment £m	Total £m
Cost					
At 1 January 2021		95.2	2.7	2.4	100.3
Additions		4.7	0.1	–	4.8
Adjustments for changes in liabilities	(i)	3.4	–	0.7	4.1
Disposals		(1.2)	–	–	(1.2)
Impairment	(ii)	(0.6)	–	–	(0.6)
At 31 December 2021		101.5	2.8	3.1	107.4
Depreciation					
At 1 January 2021		12.3	1.1	1.0	14.4
Charge for the year		5.7	0.6	0.5	6.8
Disposals		(0.8)	–	–	(0.8)
At 31 December 2021		17.2	1.7	1.5	20.4
Net book value					
At 31 December 2021		84.3	1.1	1.6	87.0
At 1 January 2021		82.9	1.6	1.4	85.9

Year ended 31 December 2022	Note	**Buildings £m**	**Vehicles £m**	**Other equipment £m**	**Total £m**
Cost					
At 1 January 2022		101.5	2.8	3.1	107.4
Additions		–	0.1	–	0.1
Adjustments for changes in liabilities	(i)	10.7	(0.1)	(0.1)	10.5
At 31 December 2022		**112.2**	**2.8**	**3.0**	**118.0**
Depreciation					
At 1 January 2022		17.2	1.7	1.5	20.4
Charge for the year		5.7	0.4	0.3	6.4
At 31 December 2022		**22.9**	**2.1**	**1.8**	**26.8**
Net book value					
At 31 December 2022		**89.3**	**0.7**	**1.2**	**91.2**
At 1 January 2022		84.3	1.1	1.6	87.0

(i) Adjustments for changes in liabilities are movements in the right-of-use asset resulting from remeasurement of the associated lease liability to reflect changes to the lease payments due to any reassessment or lease modifications.

(ii) The £0.6 million impairment charge in 2021 related to additions to a sub-let property, for which the right-of-use asset had already been fully impaired.

(iii) There are no right-of-use assets measured at revalued amounts.

(c) Lease liabilities

The following table sets out a maturity analysis of non-derivative lease liabilities, showing the undiscounted payments to be made after the reporting date.

	2022 £m	2021 £m
Less than one year	11.3	9.6
One to five years	38.6	36.2
More than five years	105.3	103.6
Total undiscounted lease liabilities at 31 December	**155.2**	149.4
Finance cost	(36.2)	(35.3)
Total discounted lease liabilities	**119.0**	114.1

Analysis of total lease liabilities		
Non-current	111.2	107.9
Current	7.8	6.2
Total	**119.0**	114.1

Details of the Company's risk management strategy for liquidity risks inherent in its lease liability are described at Note 11(e)C1.

(d) Amounts recognised in Income statement

	2022 £m	2021 £m
Interest on lease liabilities	**(3.8)**	(3.7)
Variable lease payment not included in the measurement of lease liabilities	**(0.4)**	(0.4)
Income from sub-leasing right-of-use assets	**0.2**	0.6

37 LEASING *continued*

A LESSEE *continued*

(e) Amounts recognised in the Company statement of cash flows

	2022 £m	2021 £m
Payments of lease liabilities	**(5.9)**	(7.4)
Interest paid on lease liabilities	**(3.8)**	(3.5)
Payments for variable lease components	**(0.4)**	(0.4)
Total cash outflow for leases	**(10.1)**	(11.3)

B LESSOR

The Company has a contract to lease a building which has been classified as an operating lease, because it does not transfer substantially all of the risks and rewards incidental to the ownership of the asset. This lease has a term of 21 years, and is due to end in 2025. The Company also held a second contract to lease a building which was classified as an operating lease and expired during 2022.

Lease income recognised by the Company during 2022 was £0.2 million (2021 £0.6 million). No income has been recognised in either year relating to variable lease payments that do not depend on an index or rate.

The following table sets out a maturity analysis of lease receivables, showing the undiscounted payments to be received after the reporting date:

	2022 £m	2021 £m
Less than one year	0.1	0.3
One to two years	0.1	0.1
Two to three years	–	0.1
Total undiscounted lease payments	**0.2**	0.5

Details of the Company's risk management strategy for addressing and reducing the risks associated with the retained rights in the underlying assets are described in Note 11(e)C1.

38 RETIREMENT BENEFIT OBLIGATIONS

The amounts recognised in the Company statement of financial position in respect of net retirement benefit assets/obligations are detailed below:

	2022 £m	2021 £m
Non-current assets	**341.9**	291.7
Non-current liabilities	**(101.9)**	(99.5)

The Company recognises the respective pension scheme assets and deficits in the its Statement of financial position for the schemes for which it is the sponsoring employer as there is no appropriate contractual agreement or Group policy to allocate the assets and deficit on a legal entity basis. Detailed disclosures for accounting under IAS 19, under the provisions of IFRIC 14, are provided in Note 9G4 of the Group financial statements.

39 INVESTMENTS

	Note	Investment in subsidiaries £m	Other investments (Note (a)) £m	Total £m
At 1 January 2021		5,123.5	0.2	5,123.7
Impairment	(b)	(100.0)	–	(100.0)
At 1 January 2022		5,023.5	0.2	5,023.7
Impairment		–	(0.1)	(0.1)
At 31 December 2022		**5,023.5**	**0.1**	**5,023.6**

(a) At 31 December 2022, the Company held investments of £0.1 million (2021 £0.2 million) for which no quoted market price is available and whose fair value could not be reliably measured.

(b) Prior to entering liquidiation during 2021, the Company's subsidiary undertaking, ScottishPower Investments Limited ("SPIL"), reduced its share capital by £100.0 million. As a result an impairment charge of £100.0 million was recognised in respect of the Company's investment in SPIL.

(c) The Company's subsidiaries are listed in Appendix 1.

40 FINANCIAL INSTRUMENTS

The Company holds certain financial instruments which are measured in its Statement of financial position at fair value as detailed below.

	Other investments £m	Derivative financial instruments £m
At 1 January 2021	0.2	44.8
Recorded in Income statement	–	(9.9)
Recorded in Cash flow hedge reserve	–	(1.4)
At 1 January 2022	0.2	33.5
Recorded in Income statement	(0.1)	(3.7)
Recorded in Cash flow hedge reserve	–	0.3
Cash settlement of derivative interest	–	(2.5)
At 31 December 2022	**0.1**	**27.6**

The Company's derivatives comprise forward foreign exchange contracts and cross currency swaps. The Company uses foreign currency forwards in relation to asset purchases and other small items of general expenditure. For such items, the Company designates the entire value of the foreign currency forward in the hedge relationship. The tables on the following page illustrate the timing of the notional amount of the foreign currency forwards and the average forward price of the foreign currency forwards.

40 FINANCIAL INSTRUMENTS *continued*

At 31 December 2022	Notional amount of hedging instrument (maturity profile) £m <1 year	1-2 years	2-3 years	Total
USD	**5.9**	**–**	**–**	**5.9**
EUR	**1.5**	**1.4**	**0.3**	**3.2**
	7.4	**1.4**	**0.3**	**9.1**

At 31 December 2022	Average forward price (exchange rate) <1 year	1-2 years	2-3 years
USD (GBP:USD)	1.21	–	–
EUR (GBP:EUR)	1.14	1.12	1.10

The Company has issued debt instruments denominated in JPY. As a result, the Company has entered into cross currency swaps and has designated these within a fair value hedging relationship where they meet the required hedging criteria to mitigate this risk. The carrying amount of the associated 10 billion JPY loan at 31 December 2022 is £76.1 million (2021 £81.8 million). The notional amount of the cross currency swaps is £51.4 million and the average hedge rate for the year (£:JPY) is 1:194.55.

41 TRADE AND OTHER RECEIVABLES

	Note	2022 £m	2021 £m
Current receivables:			
Receivables due from Iberdrola Group companies – trade		**9.3**	8.7
Receivables due from Iberdrola Group companies – loans	(a)	**268.7**	192.0
Receivables due from Iberdrola Group companies – interest		**22.3**	17.3
Trade receivables		**0.5**	0.3
Prepayments		**5.5**	5.2
Other tax receivables		**16.8**	8.5
		323.1	232.0
Non-current receivables:			
Receivables due from Iberdrola Group companies – loans	(a)	**3,119.0**	2,535.1
Prepayments		**0.2**	0.2
Other receivables		**0.1**	0.2
		3,119.3	2,535.5

(a) Current loans due from Iberdrola Group companies at 31 December 2022 comprises on demand loans of £52.7 million earning interest at Base plus 1%, £66.0 million on loans with a maturity date of 2023 earning interest at a fixed rate of 3.57% and instalments of £150.0 million due on loans with a final maturity of 2025 earning interest at a fixed rate of £2.821%. At 31 December 2021 current loans from Iberdrola Group companies comprised £192.0 million on loans with a maturity date of 2022 at a fixed rate of 3.416%. The non-current loans with Iberdrola Group companies due to mature in 2025 and 2032 are repayable in equal instalments on a bi-annual basis. The non-current loans with Iberdrola Group companies due to mature in 2029 and 2030 are repayable, in full, at maturity.

(b) ECLs in respect of Trade and other receivables are not material for either the current or prior year.

42 SHARE CAPITAL

	2022 £m	2021 £m
Allotted, called up and fully paid shares:		
7,103,427,542 ordinary shares of 50p each (2021 7,103,427,542)	**3,551.7**	3,551.7

Holders of these ordinary shares are entitled to dividends as declared from time to time; amounts on the capitalisation of profits and reserves; and notice and attendance at general meetings of the Company, with every member entitled to one vote on a show of hands and on a poll one vote for every share held.

43 ANALYSIS OF MOVEMENTS IN EQUITY ATTRIBUTABLE TO EQUITY HOLDER OF THE COMPANY

	Share capital £m	Share premium (Note (a)) £m	Hedge reserve (Note (b)) £m	Other reserves (Note (c)) £m	Retained earnings (Note (d)) £m	Total £m
At 1 January 2021	3,551.7	398.2	2.2	420.4	141.2	4,513.7
Profit for the year attributable to equity holder of the Company	–	–	–	–	586.3	586.3
Changes in the value of cash flow hedges	–	–	(1.4)	–	–	(1.4)
Movements in on retirement benefits	–	–	–	–	586.0	586.0
Tax relating to cash flow hedges	–	–	0.2	–	–	0.2
Tax relating to movements in retirement benefits	–	–	–	–	(126.4)	(126.4)
At 1 January 2022	3,551.7	398.2	1.0	420.4	1,187.1	5,558.4
Profit for the year attributable to equity holder of the Company	–	–	–	–	1,263.5	1,263.5
Changes in the value of cash flow hedges	–	–	0.3	–	–	0.3
Movements in retirement benefits	–	–	–	–	(49.5)	(49.5)
Tax relating to cash flow hedges	–	–	(0.1)	–	–	(0.1)
Tax relating to movements in retirement benefits	–	–	–	–	9.2	9.2
Dividends	–	–	–	–	(715.0)	(715.0)
At 31 December 2022	**3,551.7**	**398.2**	**1.2**	**420.4**	**1,695.3**	**6,066.8**

(a) The share premium account represents consideration received for shares issued in excess of their nominal amount.

(b) The hedge reserve represents the balance of gains and losses on cash flow hedges (net of taxation) not yet transferred to income or the carrying value of a non-financial asset.

(c) Other reserves as at 31 December 2022 comprises a capital redemption reserve of £8.2 million (2021 £8.2 million) and a capital contribution reserve of £412.2 million (2021 £412.2 million). The capital redemption reserve comprises the nominal value of the Company's ordinary share capital purchased by the Company in previous years.

(d) Retained earnings comprise the cumulative balance of profits and losses recognised in the financial statements as adjusted for transactions with shareholders, principally dividends.

44 PROVISIONS

Year ended 31 December 2021	Note	At 1 January 2021 £m	New provisions £m	Unwinding of discount £m	Utilised during year £m	Released during year £m	At 31 December 2021 £m
Onerous contracts		0.5	–	–	(0.3)	(0.1)	0.1
Decommissioning costs	(a)	5.3	0.9	0.1	(1.6)	(0.3)	4.4
		5.8	0.9	0.1	(1.9)	(0.4)	4.5

Year ended 31 December 2022	Note	At 1 January 2022 £m	Unwinding of discount £m	Utilised during year £m	**At 31 December 2022 £m**
Onerous contracts		0.1	–	(0.1)	**–**
Decommissioning costs	(a)	4.4	0.1	–	**4.5**
		4.5	0.1	(0.1)	**4.5**

Analysis of total other provisions	**2022 £m**	2021 £m
Non-current	**3.0**	3.0
Current	**1.5**	1.5
	4.5	4.5

(a) The provision for decommissioning costs is the discounted future estimated costs of decommissioning certain non-current assets. The decommissioning is expected to occur over the period between 2023 and 2041.

45 LOANS AND OTHER BORROWINGS

Analysis by instrument and maturity	Notes	Interest rate 2022*	Interest rate 2021*	Maturity	2022 £m	2021 £m
Loans with Iberdrola Group companies		Base +1%	Base +1%	On demand	**599.3**	417.3
£250 million euro-sterling bond	(a), (b)	6.75%	6.75%	29 May 2023	**249.9**	249.8
£175 million inflation-linked bond	(a), (c), (d)	3.494% x RPI	3.494% x RPI	13 October 2024	**345.9**	314.4
Loans with Iberdrola Group companies	(e)	SONIA + 0.84%	LIBOR + 0.84%	1 March 2029	**650.0**	650.0
10 billion JPY loan	(f)	4.6%	4.6%	27 July 2029	**76.1**	81.8
Loans with Iberdrola Group companies	(e)	SONIA + 0.82%	LIBOR + 0.82%	1 March 2031	**500.0**	500.0
£50 million medium-term note	(a), (c)	5.75%	5.75%	9 December 2039	**50.0**	50.0
£100 million medium-term note	(a), (c)	6.375%	6.375%	31 May 2041	**100.0**	100.0
Accrued interest	(g)				**41.0**	30.5
					2,612.2	2,393.8

* Base – Bank of England Base Rate; RPI – Retail Price Index; SONIA - Sterling Overnight Index Average; LIBOR – London Inter-Bank Offer Rate.

Analysis of loans and other borrowings	Note	2022 £m	2021 £m
Non-current		**1,722.0**	1,946.2
Current	(h)	**890.2**	447.6
		2,612.2	2,393.8

(a) These notes and bonds contain a "Loss of licence" covenant that will require repayment of the outstanding amount should the Group lose the relevant licence (distribution, transmission and supply licences).

(b) The £250 million euro-sterling bond due 2023 can be redeemed at any time by the Company at the higher of the principal amount or redemption price (as determined by HSBC Bank plc) giving 30 to 45 days' notice to the lender.

(c) SPL and the Company have an established joint US$7 billion euro medium-term note programme. SPL has not issued under the programme. Any future issuance under the programme will require the relevant programme documentation to be updated. The Company has in issue various notes in Sterling, which can be redeemed by the Company with 30 to 90 days' notice in case of unfavourable and unavoidable changes in the UK tax laws impacting on the note payments.

(d) The £175 million inflation-linked bond contains non-financial loan covenants. A future breach of covenants may require the Company to repay the loans earlier than indicated in the above table. Under the agreements, the covenants are monitored on a regular basis by the ScottishPower treasury function and regularly reported to management to ensure compliance with the agreements.

(e) As of 1 January 2022, all debt and hedging instruments which referenced LIBOR were amended to reference SONIA plus margin. This was implemented as a result of the LIBOR cessation from end of 2021. As of 2022, the interest applied is based on SONIA plus the relevant margin.

(f) The interest rate quoted above on the 10 billion JPY loan is fixed. This is changed to a variable rate by a cross currency swap.

(g) Includes interest payable to Iberdrola Group companies of £22.9 million (2021 £12.9 million).

(h) Current borrowings at 31 December 2022 comprise loans with Iberdrola Group companies repayable on demand, the £250 million euro-sterling bond and accrued interest. Current borrowings at 31 December 2021 comprised loans with Iberdrola Group companies repayable on demand accrued interest and the short-term element of fair value hedge adjustments and the adjustments on discontinued fair value hedges due to be amortised within one year being £(0.2) million.

(i) At 31 December 2022, the Company had £1.5 billion of undrawn committed facilities available with SPL. During March 2023 an additional £0.7 billion of committed revolving credit facility was agreed with SPL which has an expiry date of March 2025. Therefore at the date of signing these Accounts the Company has a total of £2.2 billion of undrawn committed facilities with SPL available (£1.0 billion expiring February 2025 and £1.2 billion expiring March 2025).

46 TRADE AND OTHER PAYABLES

	2022 £m	2021 £m
Current trade and other payables:		
Payables due to Iberdrola Group companies – trade	**–**	0.1
Trade payables	**12.4**	16.4
Other taxes and social security	**1.1**	1.0
Capital payables	**7.6**	6.1
Other payables	**10.2**	9.9
	31.3	33.5
Non-current other payables:		
Other payables	**4.4**	3.7
Capital payables	**0.4**	–
	4.8	3.7

47 DEFERRED TAX

Deferred tax provided in the financial statements is as follows:

	Note	Property, plant and equipment £m	Derivative financial instruments £m	Retirement benefits £m	Trading losses £m	Other temporary differences £m	Total £m
At 1 January 2021		2.5	(0.6)	106.1	–	1.2	109.2
Charge to Income statement	(a)	0.1	–	–	–	0.4	0.5
Recorded in the Statement of comprehensive income	(a)	–	0.2	(157.7)	18.2	0.1	(139.2)
At 1 January 2022		2.6	(0.4)	(51.6)	18.2	1.7	(29.5)
(Credit)/charge to Income statement		(1.0)	–	–	–	1.4	0.4
Recorded in the Statement of comprehensive income		–	(0.1)	(9.3)	(18.2)	–	(27.6)
At 31 December 2022		**1.6**	**(0.5)**	**(60.9)**	**–**	**3.1**	**(56.7)**

(a) Legislation was enacted on 10 June 2021 under the Finance Act 2021 that will increase the UK Corporation Tax rate to 25% from 1 April 2023. Accordingly, the deferred tax assets at 1 January 2021 were increased by £17.8 million to reflect the rate that the temporary differences are expected to reverse at.

(b) At 31 December 2022, the Company had unutilised capital losses of £5.4 million (2021 £5.4 million). No deferred tax has been recognised in the financial statements due to the unpredictability of suitable future profit streams against which these losses may be utilised.

48 COMPANY INCOME STATEMENT

As permitted by section 408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's income statement was authorised for issue by the SPUK Board on April 2023. The profit for the financial year per the Accounts of the Company was £1,263.5 million (2021 £586.3 million).

49 EMPLOYEE INFORMATION

(a) Staff costs

	Note	2022 £m	2021 £m
Wages and salaries		**41.2**	42.5
Social security costs		**4.8**	4.9
Pension and other costs	(i)	**10.7**	(70.8)
Total staff costs		**56.7**	(23.4)
Less: capitalised staff costs		**(1.9)**	(1.2)
Charged/(credited) to the Income statement		**54.8**	(24.6)

(i) Pension and other costs for 2021 included a credit of £85.7 million from a revaluation of a pension scheme (refer to Note 9) and costs of £2.6 million for group-wide restructuring programmes.

(b) Employee numbers

Details of the year end and average number of employees (full and part time) employed by the Company, including UK-based directors, can be found within the Corporate category of Note 23(b).

(c) Pensions

The Company's contributions in the year were £7.5 million (2021 £8.2 million). The Company contributes to the Group's defined benefit and defined contribution schemes in the UK. Full details of these schemes can be found in Note 9.

50 AUDITOR'S REMUNERATION

Auditor remuneration is billed on a group basis and not recharged to the Company. Of the total Group audit fee for the year ended 31 December 2022, £205,000 (2021 £171,500) related to the audit of the Company accounts. The total auditor remuneration for the Group is disclosed in Note 33 to the Consolidated Accounts.

51 DIVIDENDS

	2022 pence per ordinary share	2021 pence per ordinary share	2022 £m	2021 £m
Interim dividend paid	**10.1**	–	**715.0**	–

52 FINANCIAL COMMITMENTS

	2022					
	2023 £m	**2024 £m**	**2025 £m**	**2026 £m**	**2027 and thereafter £m**	**Total £m**
Contractual commitments	**5.6**	**3.0**	**0.2**	**–**	**–**	**8.8**

	2021					
	2022 £m	2023 £m	2024 £m	2025 £m	2026 and thereafter £m	Total £m
Contractual commitments	3.2	1.0	0.2	0.1	–	4.5

53 RELATED PARTY TRANSACTIONS

(a) Transactions and balances arising in the normal course of business (excluding wholly owned subsidiaries of Iberdrola, S.A.)

	2022		2021	
	Other Iberdrola Group companies £m	**Subsidiary companies £m**	Other Iberdrola Group companies £m	Subsidiary companies £m
Types of transaction				
Sales and rendering of services	**–**	**0.1**	0.1	0.2
Balances outstanding				
Trade and other receivables	**–**	**–**	0.1	–

(i) The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

(b) Directors' remuneration

Details of directors' remuneration are set out at Note 32(c) to the Consolidated financial statements.

APPENDIX 1: SUBSIDIARIES AND JOINT ARRANGEMENTS

SCOPE OF CONSOLIDATION

The table below sets out details of the subsidiaries and joint arrangements of the Group and the Company at 31 December 2022. These are all included in the Consolidated financial statements of the Group. All entities are indirect holdings unless specified. Shares owned by the Group are all ordinary shares.

Name	Principal activities	Registered office and country of incorporation (Note (ix))	Equity interest 2022		Equity interest 2021
Energy Networks					
Subsidiaries					
Scottish Power Energy Networks Holdings Limited	Holding company	(A)	100%	(i)	100%
SP Distribution plc	Ownership and operation of distribution network within the Central Belt and Southern Scotland area	(A)	100%		100%
SP Manweb plc	Ownership and operation of distribution network within Cheshire, Merseyside, North Shropshire and North Wales area	(B)	100%		100%
SP Network Connections Limited	Design and construction of utility connections	(B)	100%		100%
SP Power Systems Limited	Provision of asset management services	(A)	100%		100%
SP Transmission plc	Ownership and operation of transmission network within the Central Belt and Southern Scotland area	(A)	100%		100%
Manweb Services Limited	Operation of a private electricity distribution network	(B)	–	(ii)	100%
Joint venture					
NGET/SPT Upgrades Limited	Operation of offshore Western HVDC Transmission link	(C)	50%	(iii), (iv)	50%
Renewables					
Subsidiaries					
ScottishPower Renewable Energy Limited	Holding company	(A)	100%	(i)	100%
Blaenau Gwent Solar Limited (formerly known as EEB14 Limited)	Development of a solar farm	(D)	100%	(v)	–
Bryn Henllys SF Limited (formerly known as Lightsource SPV 75 Limited)	Development of a solar farm	(D)	100%	(v)	–
Coldham Windfarm Limited	Operation of an onshore wind farm	(B)	80%		80%
Cumberhead West Wind Farm Ltd.	Development of an onshore wind farm	(A)	72%	(vi)	72%
Douglas West Extension Limited	Development of an onshore wind farm	(A)	72%		72%
Down Barn Farm SF Limited (formerly known as Lightsource SPV 174 Limited)	Development of a solar farm	(D)	100%	(v)	–
East Anglia One Limited	Operation of an offshore wind farm	(E)	60%		60%
East Anglia One North Limited	Development of an offshore wind farm	(E)	100%		100%
East Anglia Three Limited	Development of an offshore wind farm	(E)	100%		100%
East Anglia Two Limited	Development of an offshore wind farm	(E)	100%		100%
Grafton Underwood Solar Limited (formerly known as EEB28 Limited)	Development of a solar farm	(D)	100%	(v)	–
Hagshaw Hill Repowering Ltd	Development of an onshore wind farm	(A)	100%		100%
Longney Solar Limited (formerly known as EEB18 Ltd)	Development of a solar farm	(D)	100%	(v)	–
MachairWind Limited	Development of an offshore wind farm	(A)	100%	(vii)	–
Milltown Airfield Solar PV Limited	Development of a solar farm	(D)	100%	(v)	–
Ranksborough Solar Limited (formerly known as EEB27 Limited)	Development of a solar farm	(D)	100%	(v)	–
ScottishPower Renewables (UK) Limited	Development, construction and operation of onshore wind farms	(F)	100%		100%
ScottishPower Renewables (WODS) Limited	Operation of an offshore wind farm	(A)	100%		100%
Sparrow Lodge Solar Limited (formerly known as EEB33 Limited)	Development of a solar farm	(D)	100%	(v)	–
Speyslaw Solar Limited (formerly known as EEB11 Limited)	Development of a solar farm	(D)	100%	(v)	–
Thurlaston Solar Limited (formerly known as EEB 22 Limited)	Development of a solar farm	(D)	100%	(v)	–
Tuckey Farm Solar Limited (formerly known as EEB24 Limited)	Development of a solar farm	(D)	100%	(v)	–
Wood Lane Solar Limited (formerly known as EEB30 Limited)	Development of a solar farm	(D)	100%	(v)	–
Joint ventures					
CeltPower Limited	Operation of an onshore wind farm	(B)	50%	(iii)	50%
East Anglia Offshore Wind Limited	Commercial operation of offshore meteorological mast	(E)	50%	(iii)	50%
Morecambe Wind Limited	Provision of operational services	(G)	50%	(iii)	50%
Joint operations					
CampionWind Limited	Development of an offshore wind farm	(H)	50%	(vii)	–
MarramWind Limited	Development of an offshore wind farm	(H)	50%	(vii)	–

APPENDIX 1: SUBSIDIARIES AND JOINT ARRANGEMENTS *continued*

Name	Principal activities	Registered office and country of incorporation (Note (ix))	Equity interest 2022		Equity interest 2021
Energy Retail and Wholesale					
Subsidiaries					
Scottish Power Retail Holdings Limited	Holding company	(A)	100%	(i)	100%
ScottishPower (DCL) Limited	Holding company	(B)	100%		100%
ScottishPower Energy Management Limited	Wholesale energy management company engaged in purchase and sale of electricity and gas	(A)	100%		100%
ScottishPower Energy Management (Agency) Limited	Agent for energy management activity of ScottishPower Energy Management Limited and Scottish Power UK plc	(A)	100%		100%
ScottishPower Generation (Assets) Limited	Asset owning company	(A)	100%		100%
ScottishPower (SCPL) Limited	Holding company	(B)	100%		100%
ScottishPower Energy Retail Limited	Supply of electricity and gas to domestic and business customers	(A)	100%		100%
SP Dataserve Limited	Data collection, data aggregation, meter operation and revenue protection	(A)	100%		100%
SP Smart Meter Assets Limited	Provider of smart meter assets and services	(A)	100%		100%
Dormant subsidiaries in liquidation					
SP Gas Transportation Cockenzie Limited	In liquidation	(I)	100%	(viii)	100%
SP Gas Transportation Hatfield Limited	In liquidation	(J)	100%	(viii)	100%
ScottishPower Investments Limited	In liquidation	(I)	100%	(i), (viii)	100%
ScottishPower Renewables (UK Assets) Limited	In liquidation	(I)	100%	(viii)	100%

(i) The investment in this company is a direct shareholding of Scottish Power UK plc.

(ii) On 20 December 2022, the Group disposed of the entire shareholding in Manweb Services Limited for a total consideration of £9.0 million. Given the company's net assets of £0.5 million, this resulted in a gain on sale of £8.5 million.

(iii) All joint ventures are accounted for using the equity method.

(iv) NGET/SPT Upgrades Limited has a non-coterminous year end date of 31 March. This is a contractual obligation as agreed in the joint operating agreement.

(v) ScottishPower Renewables (UK) Limited ("SPRUKL"), a subsidiary of the Group, acquired the entire share capital of the following entities on the date stated for a total consideration of £55.3 million:

• Blaenau Gwent Solar Limited (formerly known as EEB14 Limited)	31 October 2022
• Bryn Henllys SF Limited (formerly known as Lightsource SPV 75 Limited)	5 January 2022
• Down Barn Farm SF Limited (formerly known as Lightsource SPV 174 Limited)	5 January 2022
• Grafton Underwood Solar Limited (formerly known as EEB28 Limited)	13 January 2022
• Longney Solar Limited (formerly known as EEB18 Limited)	20 May 2022
• Milltown Airfield Solar PV Limited	13 January 2022
• Ranksborough Solar Limited (formerly known as EEB27 Limited)	20 May 2022
• Sparrow Lodge Solar Limited (formerly known as EEB33 Limited)	13 January 2022
• Speyslaw Solar Limited (formerly known as EEB11 Limited)	13 January 2022
• Thurlaston Solar Limited (formerly known as EEB 22 Limited)	13 January 2022
• Tuckey Farm Solar Limited (formerly known as EEB24 Limited)	13 January 2022
• Wood Lane Solar Limited (formerly known as EEB30 Limited)	13 January 2022

(vi) This shareholding in this company is held by SPRUKL. On 7 March 2023, the Group acquired the remaining 28% of share capital in this entity.

(vii) MachairWind Limited was incorporated on 12 January 2022 and is a direct and wholly-owned subsidiary of SPRUKL. CampionWind Limited and MarramWind Limited were also incorporated on 12 January 2022 and are 50% joint operations held by SPRUKL.

(viii) SP Gas Transportation Cockenzie Limited, ScottishPower Investments Limited, ScottishPower Renewables (UK Assets) Limited and SP Gas Transportation Hatfield Limited were placed into member's voluntary liquidation on 10 December 2020, 14 June 2021, 22 June 2021 and 28 October 2021 respectively. SP Gas Transportation Hatfield Limited was dissolved on 8 February 2023.

(ix) The registered offices of the subsidiaries and joint arrangements are as listed below, along with their countries of incorporation. Where a company's registered office is in England, it is registered in England and Wales.

(A) 320 St. Vincent Street, Glasgow, G2 5AD, Scotland
(B) 3 Prenton Way, Prenton, CH43 3ET, England
(C) 1–3 Strand, London, WC2N 5EH, England
(D) 4th Floor, 1 Tudor Street, London, EC4Y 0AH, England
(E) 3rd Floor, 1 Tudor Street, London, EC4Y 0AH, England
(F) The Soloist, 1 Lanyon Place, Belfast, BT1 3LP, Northern Ireland
(G) 5 Howick Place, London, SW1P 1WG, England
(H) 50 Lothian Road, Festival Square, Edinburgh, EH3 9WJ, Scotland
(I) Johnston Carmichael, 227 West George Street, Glasgow, G2 2ND, Scotland
(J) Johnston Carmichael, 7-11 Melville Street, Edinburgh, EH3 7PE, Scotland

For those entities incorporated in Scotland, Northern Ireland and England and Wales, the principal place of business is considered to be the UK; for all other entities, the country of incorporation is the principal place of business.

Scottish Power UK plc
Registered office: 320 St. Vincent Street, Glasgow, Scotland, G2 5AD
Registered in Scotland: No. SC117120